Site Valuation as a Base for Local Taxation

Chairman: R. St.J. Freeze

Speakers: Eric Beecroft
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This series of addresses on site value taxation is reprinted by the Canadian Federation of Mayors and Municipalities to make them readily available to municipal governments and those concerned with the problems of property taxation in Canadian municipalities. Four different viewpoints are represented in these papers. The Federation has no position on the matter; it is neither for nor against. It believes, however, that a more intensive discussion of this subject is needed.

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Is Site Valuation a Sound Base for Local Taxation?

The question of site value taxation presents many unresolved difficulties—too many to warrant us being sure of our answers at once. But there are assessment and tax questions of considerable urgency demanding early decisions if we are to be able to proceed successfully with the planning and financing of urban development. Many questions of urban planning and tax policy are intermingled and must be studied promptly and objectively.[1]

Assumptions

From a local government viewpoint, therefore, I am going to try now to review certain highly problematical situations which compel our municipalities to re-examine their basic ideas and practices in respect to assessment and taxation. Two basic assumptions should be stated:

The first assumption is that we intend to look squarely at property taxation as a device for the financing and regulation of community development in Canada in the 1960's and after—not to prove or disprove any doctrines inherited from Ricardo, Marshall, Henry George, Ely, Seligman or any other theorist of the past.

1 A number of Canadian municipalities are attempting limited studies of taxation in relation to urban development and many are asking for assistance in such studies. The Canadian Federation of Mayors and Municipalities, at its 1961 Annual Conference, resolved that, with such assistance as it might obtain from other bodies, it should investigate and report fully upon
(a) the efficacy of property taxation as a means of financing municipal government;
(b) the efficacy of prevailing methods of assessment;
(c) the effect of property taxation on the quality and progress of urban renewal in the central areas and on new development in suburban areas;
(d) the effects, if any, of business taxes on urban development;
(e) the effects—on municipal finance and on the development of the community—of tax exemption and/or tax abatements.

(Discussions of taxation, especially in relation to land values, have often been highly charged with emotion; over-simplification and cultism have characterized much of the discussion of the pro's and the con's of site value taxation).

The second assumption is that in the interest of our national economy, as well as in the interest of individual and community welfare, we must greatly accelerate our programs of urban development. The inefficiency and waste resulting from the unfitness of our urban plant to accommodate modern industry, commerce, transport and housing are amply documented. For the purpose of this discussion, I believe it is sufficient to say that this assumption regarding the urgency of urban development is accepted by all our national political parties and all our provincial and local governments.[2]

We are seeking the means to attain a healthy, economical and speedy improvement in our physical environment. One of the means—a means to be considered in relation to other regulatory means of attaining sound development—is through taxation. A good objective for today's discussion would be to identify some of the problems of municipal finance and development which appear to be affected by the use or misuse of property taxes.

In time, we ourselves, in Canada, looking toward our own future, may be able to develop a useful body of doctrine about property taxation, but only if we establish our position clearly in the framework of community development in the 1960's.

Municipal Responsibility for Planning and Financing Urban Development

After the second World War, we entered a new era of thought and action in this field. We recognized that we could and would build whole new communities—that a revolution in technology had made it necessary and possible to create new cities to replace the old and that, in a highly productive economy, we could afford a drastic transformation of our physical environment. The rebuilding of old European cities—even under conditions of postwar impoverishment—set a dramatic example for the "new" but already obsolete cities in North America. The example seemed to show that the primary factors in applying technology to city-building were the will and the ability to organize to achieve this objective. It also showed that the new, modern city could be not only a more habitable and exciting place but a more efficient element in the nation's economy.

The responsibility for guiding and financing urban development weighs heavily on our municipalities today. The municipalities have an onerous and creative role which was not recognized by their predecessors in a small town economy.

Land

The most vital and fundamental element with which the municipality is now concerned is land. From the general taxpayer's viewpoint, the municipality must see that the land area, as a whole, should be put to its highest use—for industry, for commerce, for transportation, for housing and for recreation. This does not mean that each piece of land should be yielding revenue to its owners or to the municipality. But it does mean that the land area as a whole is being given its maximum usefulness—that there are commercial, industrial, residential and other uses assigned

[2] Addresses of the Hon. David J. Walker, P.C., M.P., Minister of Public Works, in Toronto, October 3, 1960, and in Halifax, June 1, 1961. *Troubled Canada*, by Walter L. Gordon, (Toronto, 1961), *There is Work for Canadians in the Improvement of Our Cities and Towns.* Canadian Federation of Mayors and Municipalities, 1961. (Sheraton Mount Royal Hotel; Montreal). Report of the Senate Special Committee on Manpower and Employment, July 1961. Page 5 ff. (Government Printer, Ottawa).

to the land in a balanced relationship, so that the physical arrangements of the community will make it, as any community should be, efficient for physical needs and healthy and stimulating as a neighbourhood to live in.

This balanced and efficient allocation of land uses is a primary object of local or regional government—an object that becomes increasingly urgent as population expands and the economy becomes more complex.

Such an objective could easily be ignored by government in a rural, sparsely-populated community. Today, under the pressure of population—plus the pressure of increasing demands for a higher standard of living—the sound use of land becomes a matter of intense common concern.

The Concern of Private Industry as Well as Government

The sky-rocketing cost of land is becoming a matter of increasing concern to house-builders, retailers, manufacturing industries in search of sites, banks, insurance companies—all types of enterprise engaged in productive investment.

This high cost of land is viewed with alarm, not only by municipal governments, but by provincial and federal governments who are responsible for building highways, air terminals and many other public works and for speeding the construction of home-building.

The main difficulty lies in two grim facts which must be accepted as inevitable and must be viewed as a single basic problem:

(1) urban population is increasing, and will continue to increase, at a staggering rate;

(2) the quantity of raw land does not increase at all.

The cost of raw land therefore rises sharply—not because of any change in the attributes of the land itself, but as a result of a vast increase in the demand for a fixed supply. The price offered for a given piece of land multiplies as a result of the pressure of population combined with the improvements erected by public and private investors.

Who Contributes to the Increase in Land Values?

Taxpayers—through their property taxes, license fees, and special assessments—have paid for streets, sewers, water supply, sanitation, police and fire protection, schools, parks and playgrounds. They have also paid for transit facilities and expressways which make the land accessible.

To this public investment, private enterprisers have added an immense private investment in industrial facilities, homes, commercial buildings, shopping centres, theatres and other capital works.

Can We Reduce the Taxes on Improvements?

It is such investments, through both public and private channels, which have made many a rural acre increase in value in a few years from, say $500 to $10,000, and many a central city acre from $100,000 to $700,000.

Yet our system of tax assessment in most places in North America is such that this vast community-created increase in value is very lightly taxed. Our local government tax revenues come mainly from the assessment of buildings and other improvements—improvements resulting from the investment of public and private capital.

Both taxpayers and private investors are beginning to find this discrimination against the improvement of properties increasingly irksome. The scarcity of land becomes more acute for each succeeding generation, and of course the painful effects are aggravated in times of depression. Private investors become more alert to spot the sources of waste—to sense the obstacles, including tax obstacles, to productive investment in industry and commerce. Taxpayers—especially in their municipal capacity—are forced to search more carefully for untapped sources of revenue, and also for ways of promoting those uses of land which will yield greater revenue to finance essential public services.

So today we see portents of an alliance between home-owners, industry, commercial business and municipal corporations to re-examine our system of property taxation. It appears to be to the advantage of all productive elements in our economy to minimize the taxes on improvements and to shift a larger burden of taxes to the fortuitous or community-created profits on land.

Two Kinds of Property Tax?

It may he helpful, as Mary Rawson suggests in her recent book[3], to think of the property tax as, in effect, two kinds of tax—a tax on the value of buildings or improvements and a tax on land value. This distinction, which did not mean much in simple communities, acquires a basic significance in a complex, rapidly-developing urban community.

A tax based on improvements seems to discourage improvements at a time when a municipality wants to accelerate improvement. An improvement tax may discourage the rehabilitation or replacement of bad housing at a time when citizens want a higher standard of housing. It may discourage or retard the improvement of industrial and commercial property because taxes on new building will be higher than on the old. Improvement taxes may hold back investment in new construction at a time when, in the interest of employment, in the interest of higher living standards and in the interest of a more efficient and economic urban plant, we need to accelerate renewal.

Undertaxing Land

On the other hand, it becomes more and more apparent to the municipalities that, while the tax on improvements retards both new construction and renewal, the land itself has been seriously undertaxed. This undertaxing of land value appears to be an impediment to progress. (1) It seems to enable owners for long periods to withhold land from development—to leave land idle or to use it in uneconomic ways. (2) It encourages owners of blighted housing on valuable land to take full advantage of their opportunity to rent—with no improvements and a minimum of maintenance—while awaiting the large eventual capital gain which the growth of population, the extension of municipal services and the productive enterprise of private business has made possible.

The problem here is aggravated by the fact that deteriorating housing in central and sub-central areas is in great demand. It is in such deteriorating areas that the demand of low-income people for housing is focussed—old people on pensions, young families on medium and low income who cannot afford NHA-financed homes, or the vast number of single people who want only single accommodation on a rental basis. Ownership of such blighted housing is profitable. Improvement or conversion of such housing is not required by market pressure. To improve it

[3] Mary Rawson, *Property Taxation and Urban Development*. Urban Land Institute, Washington, D.C. 1961. Pages 29—30. (Research Monograph No. 4). This is a study, based upon Burnaby, British Columbia, to determine the probable results of a shift to site value taxation.

would only result in higher assessment. With land value relatively tax free and an almost certain prospect of large ultimate capital gain, there is no incentive to the owner to improve the property or to redevelop it.

The municipality's position *vis-à-vis* such blighted property is a matter of increasingly grave concern.

Land which has a high potential use value is yielding little revenue to the municipality. From the general taxpayers' viewpoint, the owners of such property are not pulling their weight compared to the owners who are improving their property, making it productive in industry or business or building better housing or otherwise creating a community asset.

If, in order to assure redevelopment, the municipality undertakes to buy the blighted property and to clear it, the municipality must pay—not the assessed value (relatively small)—but the market value, a value which in crowded and rapidly-growing areas has little relation to the blighted buildings which occupy it. (Under the *mystique* which has developed in assessment practice in several Canadian jurisdictions, land is not assumed to have value except in conjunction with the improvements on it. Investors, as distinct from assessors, often place a very high value on vacant land—and pay it.)

Is it fair to the municipality—that is, to the general body of taxpayers—for the municipality, *on the one hand,* for tax purposes, to fix the value of the land as nominal on the ground that buildings on it have little value, thereby losing substantial tax revenue which (unlike taxes on improvements) would at the same time accelerate the transfer of land for redevelopment; *and, on the other hand,* when purchasing the land for redevelopment, to pay market value as determined by what investors believe the land to be worth for future use?

In many of our cities, economically desirable renewal seems to be held back by the very practical difficulty that the municipality (or the municipality in partnership with senior governments)—if it is to buy blighted area land for clearance and redevelopment—must pay something like the market price based on the land's potential use value. And this market price may be further inflated by the fact that the existing owner, being comparatively tax-free, has an incentive to withhold the land from the market.

The high value of central area land is based to a large extent on the anticipation of (a) municipal investment in improvements—in transportation to and from the area, in parking facilities, in open space, in utility services, and (b) private investment in new office buildings, commercial services and other facilities. To the extent that increases in land values are due to such community investment, the municipality appears to have a strong claim to such increases. Under present circumstances, the municipality (in some cases, in partnership with senior governments) appears to be in the position of having to pay—if it buys land for redevelopment—a market price which includes the gain anticipated from the community's own investment!

Recently, in May of last year, a distinguished committee (consisting of three well-known economists, a lawyer, a publisher and a former federal urban renewal official of the U.S.A.) prepared a report on *Tax Policies and Urban Renewal in New York City* (published by the Citizens' Housing and Planning Council of New York, Inc., New York City). Its recommendations included the following:

(1) A thorough study of assessments in blighted areas. Preliminary study had suggested that property in slum areas was under-assessed.

(2) A thorough enquiry into condemnation practices. From preliminary study, the committee felt that many awards upon condemnation were much higher than the market and that either assessments were too low or awards too high or both. In view of the large sums of public money involved in urban renewal, the committee felt that there was need for a full-scale study.

(3) A full scale study of the "graded tax" plan. The committee said: "It is our opinion, based on all of the various facets of this tax policies study, that the idea of exempting all improvements from taxation has much to commend it."

The committee was hopeful that, after careful further study of these subjects and by undertaking effective code enforcement (as a tool for reducing the cost of acquiring properties for urban renewal), the City could make the urban renewal program self-liquidating.[4]

The Need for Objective Study

The evidence seems to show that there is a need to ascertain whether the burden of paying for urban development through property tax is fairly distributed and whether the tax is applied in such a way as to support prompt and sound progress in urban development.

Some municipal authorities are thinking mainly in terms of tax relief. Could taxes on improvements be largely or wholly eliminated? But it is difficult, in the face of staggering financial needs, for local governments to offer such tax relief without compensating advantages. For this reason, the restoration of the concept of market value as a proper base for taxation, particularly as applied to land value, has a wide appeal; the experience with renewal seems to suggest that municipalities, by failing to relate land assessment to market value, are losing a valuable source of revenue and are bearing a much higher burden of the cost of renewal than they should.

One of our greatest needs is to promote a healthy and economic growth of our community facilities—sewers, water supply, streets, urban transportation, schools, central area shopping centres, cultural and recreational facilities—which, in quality and efficiency, lag far behind other achievements in our national economy. To speed up growth in this sector of our economy will strengthen the economic base of our municipalities and provide them with increasing revenue. At the same time it will provide our communities with a more economic and efficient physical plant and a vastly improved living environment.

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[4] See also *The Role of Local Governments in Encouraging Housing Rehabilitation and Conservation through Economic Incentives*, by John H. Vanderzell. This study, published by the Commonwealth of Pennsylvania's Bureau of Municipal Research (Harrisburg, 1960) is of particular interest for its discussion of the "graded tax".

As long ago as 1937, respected authorities in the U.S.A. were asking state and local authorities. "to consider the reduction of taxation on buildings and the corresponding increase of such rates on land, in order to lower the tax burden on home-owners and the occupants of low-rent houses, and to stimulate the rehabilitation of blighted areas and slums."

Our Cities: Their Role in the National Economy, National Resources Committee, Washington, D.C.

A few years ago, in an article on urban renewal in *The American City* (May 1955), Glenn E. Hoover declared that

"All our talk of urban renewal will have a hollow sound if we continue to tolerate a tax system which penalizes the improvers and rewards the owners of shabby and neglected properties, and thus invites the very evil we are trying to cure."

The advantages of accelerating the pace of urban renewal can be realized by examining the financial as well as the social results of renewal in those cases where substantial programs have been pushed forward against all obstacles, as in Philadelphia, Pittsburgh, Baltimore and New Haven.[5]

Questions Requiring Study

Careful enquiry seems necessary before any decision to shift the tax burden entirely to land value would be justified.

There is ample evidence, however, that land values are under-assessed in many Canadian jurisdictions and that municipal taxpayers, therefore, are deprived of returns which might be regarded as the outcome of their municipal investment.

Attention should be focused on the means to bring the assessment of land into a realistic relationship to actual value. Constructive action in this respect alone might go far to enable municipalities to bear the cost of urban development and renewal.

Municipal governments may be loathe to reduce taxes on improvements at a time when the public appears to demand a wider range and a higher standard of community facilities. Taxes on improvements might be regarded as more justifiable if the taxpayers as a body were treated more equitably through a realistic assessment of land values—in place of the present apparent discrimination in favour of owners of slum property.

In any case, the reduction of taxes on improvements—though it may be facilitated by a more equitable tax on land values—will depend on

(a) a study of the possibility of utilizing other sources of taxation available to local governments;

(b) the extent to which local authorities are prepared to go in taxing land values; (To shift all or a large part of the property tax to land values would probably require a great increase in the mill rate, thereby creating a serious psychological difficulty.)

(c) the arrangements which could be made with senior governments for the financing of community services.

Future application of the property tax must be considered in relation to all other sources of revenue. It seems safe to predict that the financing of community development will become the subject of increasingly intimate co-operation between the several levels of government.

Finally, there is need to study a number of technical and political problems in the way of any transition from improvement to site value taxation. Besides the psychological difficulty arising from great increases in the mill rate (already mentioned), there would be a question of equity affecting the rights of existing owners.

There would also be serious questions regarding the relationship of zoning to property taxation. Is zoning for agriculture feasible? Can greenbelts be preserved and urban sprawl controlled by zoning and by relating land taxation to the zoning plan?

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[5] For information on the municipalities' recovery of revenue from urban renewal in some American cases, see

A Manual on Urban Renewal and Finance (City of Philadelphia, 1960).

The Challenge of Urban Renewal. Urban Land Institute. Washington, D.C. Technical Bulletin No. 34.

Cities and the Sixties. Canadian Federation of Mayors and Municipalities. 1960. (See address by James Rouse.)

Some Canadian assessors feel that the technical problems of assessment might be formidable under a system of site value taxation. There have been many years of experience with assessment of land values under a system of land value taxation in Australia and New Zealand, and that experience has been recorded extensively. In New South Wales, the system of land valuation was the subject of a recent study by a parliamentary committee, whose report should be of considerable interest to Canadians.[6] Superficially, at least, the evidence from Australia and New Zealand which seems most impressive is that, of the very large number of municipalities which adopted site-value taxation and "un-taxed" improvements two generations ago, very few, if any, have abandoned the system.

This paper ends where it began: few definite conclusions are justifiable now, but the questions of taxation affecting the progress and quality of urban development do—for the reasons outlined herein—deserve prompt and objective study. Such a study should be done with a view to the future quality and efficiency of our cities and towns and should be unhampered by any dogmas inherited from the past.

Speaker: **D. H. Clark**
Federal-Provincial Relations Division, Department of Finance

For my contribution to this panel I propose to discuss the economic aspects of site taxation. I shall begin by stating, as succinctly as possible, my understanding of what site taxation is and what advantages are claimed for this method of property taxation.

Site taxation refers to a system of property taxation in which the tax is based entirely on the value of the land. It obviously differs from the system of taxation most generally used in North America—which I shall henceforth call composite taxation—in that improvements to land are excluded from the tax base.

Advocates of site taxation have enthusiastically claimed that numerous important benefits would flow from its adoption including the following:

1. It would greatly reduce the social evil of speculation in land whereby owners of idle land reap an unearned increment as their land appreciates following the developmental activities of their industrious neighbours.
2. It would lessen the economic evil of unused land and underdeveloped land.
3. It would stimulate building construction by driving down land prices and by eliminating a major operating expenditure for buildings.
4. It would make it impossible for the owner of real property to shift a part of his property tax on to the tenants of his property.
5. It would shift a considerable amount of the tax burden off home-owners and place it on downtown commercial property thereby stimulating housing construction.
6. It would encourage the redevelopment of slum areas and the removal of the cancer of urban blight.

The foregoing arguments have led some people to believe that site taxation is a veritable panacea for many of the ills besetting our municipalities today.

Before analyzing these claims, I think it would be instructive to examine two fundamental matters which have an important bearing on any intelligent discussion

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[6] Report by the Committee of Inquiry on certain matters arising under the Valuation of Land Act 1916-51. Parliament of New South Wales, 1960. Government Printer, Sydney, Australia.
Mr. H. Bronson Cowan's work on site-value taxation in Australia, New Zealand, South Africa and Canada, has been widely studied in the U.S.A. and Canada. *A Graphic Summary of Municipal Finance as Affected by the Untaxing of Improvements and Taxation of Land Values.* (Harpers, N.Y., 1958).

of site taxation. First, there is the economic theory of the shifting and incidence of property taxes, and secondly, the question of how taxes would compare on individual properties and on different classes of property under site taxation and composite taxation.

The accepted theory of the shifting and incidence of property taxes holds that, generally speaking, taxes on owners of buildings are in the long run shifted to a considerable extent to the occupants, whereas taxes on owners of land are not shifted. The general mechanism by which taxes on an object are shifted is by an absolute or relative reduction in the supply of the object by those who produce or control it. Thus, if taxes are raised on buildings, the effect may be to discourage new construction so that the supply of buildings increases much less quickly than it otherwise would, or even decreases, and the price of renting building space rises above what would have prevailed had there been no tax. The tax is therefore shifted, in whole or in part, to the occupants of buildings generally. When we consider land, however, we find that we have a singularly unique object because the supply of it is almost completely fixed and can be neither increased nor decreased by changes in taxation. It follows from this that the normal shifting mechanism cannot operate and accordingly the burden of a tax on the owner of land is not passed on to the occupant or to anyone else.

It is, furthermore, generally held that where a tax such as a tax on land cannot be shifted it is capitalized. Thus, if the owner of a vacant lot sustains a property tax increase, expected to be permanent, of say $1,000 per annum, and if the rate of return which he could expect from developing this site to its highest and best use is 10%, then the market value of the property would immediately be reduced by $10,000, i.e., by $\frac{\$1,000}{0.10}$.

The above decrease of $10,000 would, however, be more or less offset if we postulate that the increase in land taxes was caused by a change from composite taxation to site taxation. This follows because it would still be possible to construct the same building on the site and it could now be operated at a reduced cost owing to the tax exemption for improvement. This reduction of taxes on the building would increase the economic rent of the property and serve to increase the value of the land rather than of the building. Putting this in another way, the building would cost exactly the same following the change in tax system and its value would be completely unaffected. (The foregoing is, of course, a simple illustration which ignores possible changes in building costs and rent levels following the introduction of site taxation and also ignores the possibility that the highest and best use of the land might be a different type or size of improvement. These possibilities, however, do not alter the general truth of the proposition that changes in the economic rent of a property would impinge upon the residual factor of production, i.e., land.)

Turning to the second matter, there is undoubtedly a considerable measure of agreement between the protagonists of site taxation and the opponents of this cause, concerning the comparative taxes which would be paid under site taxation, on the one hand, and composite taxation, on the other. First of all, apart from any change in demand for municipal services arising from the new pattern of taxes, and apart from the effect of shifts in provincial equalization grants arising from changes in the relative taxable capacities of taxing jurisdictions, the total revenue to be obtained from property owners within a given taxing jurisdiction should be exactly the same under the two systems of taxation. The owners of individual properties, however, will be effected and will, in almost every instance, pay either more or less taxes following a change from composite taxation to site taxation. Owners who will pay higher taxes are those for whom the ratio of improvement value to land value is

lower than the weighted average ratio of improvements to land for all taxable properties within the taxing jurisdiction. Owners who will pay lower taxes are those for whom the ratio of improvements to land exceeds the overall average. Owners of property exactly at the average ratio will have their taxes unaffected. The foregoing is subject to two qualifications of some importance. First, the introduction of site taxation would, of itself, alter land values and this would ultimately be reflected in shifts in assessment values. Secondly, the use of site taxation would focus attention directly on the basic policies used in land assessment and lead to strong and sometimes successful pressures for changes in these policies. I suspect that both of these qualifying forces would operate to reduce the extent of tax changes on individual properties following a change to site taxation.

A considerable amount of factual data is available on improvement-land ratios for most of the major types of property within urban municipalities and it is therefore possible to carry this analysis somewhat further and reach some very interesting conclusions which are again, I believe, mutually acceptable to advocates of both site and composite taxation. Perhaps the most important generalization which can be made here is that improvement-land ratios tend to decline as we progress from the periphery of a city inward to the central core. In other words, notwithstanding the height of buildings constructed in the central business district, the percentage of land value to total property value tends to be higher there than for properties in outlying parts of the city owing to the astronomically high land values in the downtown area. A most important result of site taxation, therefore, is a general reduction in the average taxes on home-owners accompanied by a general increase in average taxes for owners of downtown commercial properties. While these are pronounced tendencies, there will, of course, be numerous individual exceptions.

A type of property which has attracted much attention is the slum tenement commonly found in the blighted areas ringing the central cores of our biggest cities. Since this type of property is neither central nor peripheral, one would expect it to be largely unaffected by the introduction of site taxation. A recent study, of major proportions, in New York City showed that the average improvement-land ratio for properties in 12 slum clearance projects in Manhattan was almost exactly the same as the ratio for all taxable property in the entire borough.[1] It was conceded, however, that this result could have been caused by the under-assessment of slum land and that, with proper assessing, the improvement-land ratios for slum properties might have been somewhat below the general average.

Turning to industrial property, we find a category which would generally benefit from site taxation because of the tendency to locate outside of central urban areas. There would, however, be a few exceptions where considerable hardship might result. I think the latter would consist mainly of industries which are required to locate on valuable waterfront property, of industries which by their nature require large amounts of land with relatively small or cheap improvements, and of a few industries which are still, for one reason or another, centrally located.

I am not aware of any studies of improvement-land ratios in rural areas although these have doubtless been made. However, the Annual Report of Municipal Statistics for the Province of Ontario[2] indicates that the ratio of total taxable assessment of improvements to total taxable assessment of land is substantially lower for townships than for any other class of municipality and the inference is clear that existing improvement-land ratios for Ontario farms are relatively low. I would, therefore, expect farmers to lose appreciably from site taxation, if the

[1] Citizens' Housing and Planning Council of New York, Inc., Committee on Tax Policies, *Tax Policies and Urban Renewal* in New York City, 1960, p. 7.

[2] Ontario Department of Municipal Affairs, *1959 Annual Report of Municipal Statistics*, Summary Table, p. XXII.

municipalities in which they live contain substantial amounts of non-farm property. This would no doubt apply in few instances on the Canadian prairies but would be a major consideration in the more heavily populated parts of eastern Canada and British Columbia. It is not difficult to envisage instances of large and costly industrial establishments situated on cheap land in rural areas, which establishments would benefit enormously from the removal of improvements from the tax base. My conclusion is that the results of introducing site taxation into rural municipalities would vary greatly; in purely agricultural areas the differences would be relatively small, but in townships with mixed economies, the farmers might face serious tax increases. The outcome would be affected to some degree by methods of assessment which are frequently highly discriminatory against non-farm property.

I shall now turn to an analysis of the six advantages claimed for site taxation to which I have previously referred. In this analysis I shall assume that we are dealing with a proposal for complete site taxation so that improvements will be entirely exempted. I also wish to assume that site taxation is to be introduced as intelligently as possible and I shall therefore postulate that it is proposed to change over to site taxation very gradually over a period of years and that the change is to be compulsory for all taxing jurisdictions within a province. Alternative assumptions would present particular problems with which there is not time to deal.

The first advantage which I have listed for site taxation is that it would greatly reduce speculation in land by imposing such a heavy tax burden on unused land that the unearned increment would largely disappear. This argument contains some truth but, in my opinion, the possible effects of site taxation on true speculation are greatly exaggerated. The greatest boom in land values ever to occur in Western Canada took place during the years 1909-13 when site taxation was at its zenith. The reason is not hard to find; profits from land speculation can be very large in relation to holding costs and the tripling or quadrupling of land taxes, as might occur under a change to site taxation, could be a relatively minor consideration—especially where it is anticipated that the land will be held for only a short period of time.

It will be true, of course, that under site taxation, the added carrying charges for many vacant pieces of land would make the cost of holding them prohibitive. In many instances, however, it is a mistake to assume that vacant land is being held for speculative reasons. Thus, land may be held by a business for future expansion, by a home-owner to ensure a quiet neighbourhood, by an entrepreneur because he does not consider the time economically propitious for the type of development he has in mind, as well as for other reasons. Vacant land held for these reasons generally would be more likely to be affected by site taxation than land held for speculation.

I would also like to suggest that speculative gains from land are not as harmful as commonly believed. In the first place, land speculators may actually perform a useful service to the community by combining various parcels of land into a single tract suitable for a type of development to which the individual parcels could not have been put. The mere act of holding vacant land over a period of years may also prove a boon to the community which suddenly finds that it has a great need of vacant land for some particular use—whether public or private. I would furthermore like to observe that a considerable proportion of the profit on land today goes to the person who actually develops the land. Thus, in every large Canadian city we have seen builders who have themselves acquired large tracts of farm land on the city outskirts, who have subdivided that land and then sold it with fully serviced homes. In this particular instance, there is a large profit on the sale of the land but it has gone to the person who actually developed that land. Is this an unearned increment or an earned increment? In my opinion it is part of each. This leads me

to one very important conclusion; it is the anticipated profit on land which is one of the strongest contributing forces to urban development today. If it were possible to transfer the capital gains on land from private individuals to society at large (and site taxation emphatically does not do this), a great many urban developments now taking place would never have seen the light of day.

One further point should be made; if it is really considered to be a desirable public policy to curtail the existing volume of land speculation—and I am not contending that this is the case—then, in my opinion, this could be done far more effectively by means of a capital gains tax on land than through the adoption of site taxation.

The second advantage claimed for site taxation is that it would lessen the economic evil of unused and undeveloped land because of the increased tax burden on such property. I would certainly agree that the number of vacant parcels of land in a city would be lessened and I would also agree that there would be a tendency to the more intensive use of land. This would presumably result in a more compact urban development which would reduce certain overhead costs involved in running a city. It would, however, bring another set of difficulties in its wake—namely those associated with higher urban densities. Thus, there would be tendencies to construct taller buildings and to place them on smaller lots; the latter would apply especially in residential areas. These forces, in turn, would intensify existing traffic problems and detract from the spaciousness of our new residential areas. It may be contended that population density problems could be controlled by rigid zoning restrictions and by limitations on building heights and lot sizes. This would prevent the worst excesses of high density from occurring, but I am sceptical of any claim that, in a democracy, building restrictions could prevent a considerable overall rise in the density of urban development if there were strong economic forces at work to bring this about.

A third, and most important, advantage claimed for site taxation is that it would stimulate building development by driving down the price of land and by putting a major expenditure on property, i.e., property taxes, on a basis where it no longer increases with the size and value of the improvement. I would have to question the first point here that land prices would be driven down. In my opinion, some land would go up in value while other land would decline. It is quite easy to see how the price of a particular parcel of land could rise following the introduction of site taxation if one understands the income residual process by which investors establish land values. Let us assume, for example, that there is a vacant lot in an apartment area and that the highest and best use of the land under composite taxation is for a two-storey apartment. Let us further assume that the net income before depreciation attributable to the property is $7,000, that the building would cost $60,000 and have an economic life of 50 years so that the rate of depreciation would be 2%, and that the rate of return on capital invested in apartments is 8%. On the basis of these assumptions, the required return on the building would be 10% of $60,000 or $6,000 and the residual income attributable to land would be $7,000 — 6,000 or $1,000. The capitalized value of the land would be $1,000/0.08 = $12,500. Now let us assume that site taxation is introduced, and that the only change is that the total property taxes are reduced by $200. The net income before depreciation would then increase to $7,200, the return on the building would remain at $6,000, the residual income attributable to land would increase to $1,200, and the capitalized value of the land would be $15,000, ($1,200/0.08) in place of $12,500. If you take a further assumption that the highest and best use of the site under site taxation would not be a two-storey apartment but rather a three-storey one, you would likely find that the investment value of the lot was well above $15,000.

The foregoing illustration is based on accepted appraisal theory. The British economist, Ralph Turvey, arrives at a similar conclusion in chapter VII of his book, *The Economics of Real Property,* using a highly sophisticated economic analysis.[3] In conclusion, my own opinion is that following the introduction of site taxation, land values would tend to fall in those areas where taxes would rise—notably in the downtown area, and that land values would tend to rise in those areas where taxes would fall—notably in outlying residential areas. Overall, I am not convinced that there would be any fall in the general level of land values. Looking at this in another way, the value of land, as of other commodities, is determined by forces of supply and demand and can be reduced only if the supply increases or the demand decreases. The introduction of site taxation could not increase the supply of land and surely would not decrease the demand. It therefore follows that the general level of land values would not decline.

The other half of the argument concerning the effects of site taxation on building development is that the optimum capital outlay on any given site would be higher than under composite taxation because property taxes would no longer increase with the size and quality of the building. I think that this argument is generally valid although there is room for disagreement on the degree of stimulus which would be given. My principal observation is that site taxation reduces taxes for old buildings as well as for new ones and that economic development would probably receive greater encouragement from a measure designed to assist new buildings only. If additional stimulus for building development is required—and I am not arguing that it is—I would much prefer the device of a statutory exemption for all new buildings for a period of say five years.

The fourth advantage claimed for site taxation is that property owners could no longer shift a part of their property taxes on to the occupants of their property. Subject to certain qualifications, this contention appears to be correct. I am not competent to discuss all of the intricacies of tax shifting and will content myself with limited observations. First, the significance of this argument is limited greatly on this continent because so many properties are owner-occupied. Secondly, if you assume that site taxation is to replace composite taxation, it is unrealistic to expect that tenants are suddenly going to be able to reduce their rents by the amount of shifted taxes which they have previously been bearing. It is obvious that the process of unshifting would be a long one. The matter is complicated partly because, for many properties under long term lease, the lease provides that property taxes shall be paid by the tenant. While we may recognize that taxes on land do in the long run fall upon owners, we should also recognize that in many cases a shift of taxes from occupant to owner will result in considerable hardship for the latter. Thus while the owner may receive a large economic rent from a given property it is possible that he paid a very large capital sum for the right to receive that rent and that the imposition of site taxation will substantially increase his taxes thereby sharply reducing his income from the property as well as its resale value.

The fifth advantage listed for site taxation is that it would shift a considerable amount of the tax burden off home-owners and place it on downtown commercial property and that this would stimulate housing construction. This is generally true. It is, indeed, the explanation of why site taxation has received strong popular endorsement in countries such as Australia and New Zealand where its use has been determined by local option. It was evidently apparent to most of the home-owners concerned in these countries that their taxes would be lower under site taxation than under composite taxation and they were easily able to out-vote the persons who would lose under site taxation.

[3] Ralph Turvey, *The Economics of Real Property,* George Allen and Unwin Ltd., 1957, pp. 87-89.

I should point out here, however, that a very considerable number of home-owners would not really gain from the introduction of site taxation. In the first place, it seems probable that the price of residential land would be higher under site taxation than under composite taxation. Secondly, in the metropolitan areas of Canada, there are large populations living in dormitory municipalities where a very high proportion of the real estate consists of housing and where there is no valuable commercial land which could bear the brunt of a reduction in residential taxes. Thirdly, there would in every municipality be a minority of owner-occupied homes where the improvement-land ratios would be below the general average for all types of real estate and where the introduction of site taxation would mean an increase in taxes. Most of the latter homes would, I submit, belong to low income people living in small old homes on valuable land. Frequently the homes were originally out in the countryside until the city expanded to surround them. One might designate many of these properties as undesirable slums but they differ from the usual concept in that they are owner-occupied and tend to be widely scattered rather than concentrated in one area. There would also be some exceptions in the downtown commercial area; taxes would decline on a minority of these properties, particularly for multi-storied office buildings situated off the main street. There would, in addition, be some benefit from a tendency for central land prices to fall.

I would nevertheless agree that most home-owners would benefit and most downtown property owners would lose from site taxation. This does not dispose of the matter, however, because there are reasons for believing that the predicted results would, on balance, be harmful rather than beneficial. One thing which concerns me is that site taxation would contribute to the further commercial decentralization of our cities—a process which has already gone too far in most cities and is creating serious problems. I do not mean by this that site taxation would contribute to a general decentralization of our cities, but it would foster a decentralization of downtown commerce because it would be so hard hit by the tax change. In other respects, site taxation would oppose decentralization because of its tendency to encourage more compact urban growth. The overall result, however, would be to weaken the city centre which is unfortunate because our cities are in great need of retaining a strong central core.

I am also concerned over the additional subsidization of residential property which would result from site taxation. In general, the value of municipal services received by home-owners is already far in excess of the taxes which they pay. A reduction in these taxes would create further imbalance and lead to demands for more and more services to be paid for largely at other people's expense. I agree that under certain circumstances, the additional subsidization of residential accommodation is desirable. However, such subsidies should be directed to the low income groups whereas site taxation mainly benefits the middle and upper income groups, i.e., those living at the periphery of the city. There are undoubtedly urban areas where shelter needs are critical and something should be done; other means exist for doing this, however, than the drastic expedient of introducing site taxation.

The sixth advantage which I have listed for site taxation is that it would contribute to the redevelopment of blighted areas. In my opinion there is very little to substantiate this claim. Two principal means by which site taxation could encourage redevelopment of blighted areas would be by increasing the taxes on slum properties and thus making them less profitable to hold or by reducing land values in blighted areas. On the basis of my previous analysis, I strongly disagree that either of these results would take place to any significant degree. I have, however, previously accepted that site taxation does provide a general stimulus to development in that property taxes would no longer increase with the size and quality of the building. This point would apply to blighted areas as well as to others.

The site taxation argument concerning blighted areas sometimes suggests that the restriction of taxes to land alone would weigh so heavily upon owners of slum property that they would be forced to redevelop their properties and that they would do so with little or no public assistance.[4] My own belief is that slum property owners would do virtually nothing if subjected to site taxation. I would go further and say that there is almost nothing they could do even if they wanted to because the only answer to the problem is to redevelop the entire neighbourhood which requires powers of expropriation, public funds, public approval and public direction. It is utterly naive to suggest that owners of individual properties within a slum area will attempt to improve their own properties when all around them is sordid blight. I conclude that the slum problem is so enormously costly and involved that site taxation could make only a minute contribution to the solution of it.

No discussion of site taxation would be complete without reference to the very important question of how this method of taxation conforms to the fundamental principles of equity and soundness of taxation. We must particularly ask, therefore, if site taxation meets these criteria as well as composite taxation does. I believe that the comparison is unfavourable to site taxation with regard to three very important principles—ability to pay, benefits received, and stability.

The argument concerning ability to pay is simple. Surely, if you have two identical parcels of land side by side, and one supports a ten-storey office building while the other is merely an unimproved parking lot, the ability to pay taxes is considerably greater in the case of the improved property. Composite taxation recognizes this; site taxation does not, or, if it does, it is only because land assessment is based on the inexcusable theory that the value of land is normally determined by what sort of improvements are situated on it.

I do not find that site taxation conforms nearly as well to the benefits received principle as does composite taxation. Some municipal services do relate more closely perhaps to land value than to building value; in many cases these services are largely financed by local improvement charges based on land frontage or by private developers rather than by regular property taxation. Other services which are financed by property taxation do not seem to bring any direct benefit to land at all; I am thinking here of police protection, fire protection and garbage collection. These services do, of course, affect the selling price of land and therefore benefit it indirectly. Probably most municipal services relate more to people than they do to either land or buildings. This would certainly be true of the two most costly local services—education and roads. It is surely obvious, however, that the number of people living in or working at a property is normally far more closely associated with the value of the building than the value of the land. Thus the cost of providing and maintaining roads, bridges, and public transportation for the thousands of people working in a downtown skyscraper can be enormous; surely the benefits received theory of taxation would require that a heavy tribute should be exacted from the owner of such a monster on a basis which would clearly differentiate between him and the owner of a property with a mere handful of persons in it. Again, I submit that composite taxation is the more equitable method.

The third principle of taxation to be considered is stability. It is difficult to think of a more unstable tax base than an object such as land which is completely fixed in supply and which is therefore subject to the most violent fluctuations in price. It is this fact, of course, which largely explains the dismal failure of site taxation in western Canada during the years since 1913. This largely explains, for instance, why assessed land values for taxable properties in Edmonton declined

[4] I have particularly obtained this impression from *A Graphic Summary of Municipal Improvement and Finance as Affected by the Untaxing of Improvements and the Taxing of Land Values*, by the International Research Committee on Real Estate Taxation, 1958.

from $191.3 million in 1914 to $61.6 million in 1921, why taxable land values declined from $120.8 million in Calgary in 1913 to $49.4 million in 1921 and why they declined from $54.5 million in Saskatoon in 1913 to $23.9 million in 1921.[5] It largely explains why the city of Vancouver had tax arrears of $5.5 million at December 31, 1918 equal to 124% of the current tax levy.[6] It further explains why we find the following sentence in Commissioner Goldenberg's 1947 report on Provincial-Municipal Relations in British Columbia:[7]

> It is well to note in this connection that of the six municipalties which defaulted on their debts in the nineteen-thirties, Prince Rupert, Burnaby and Merritt had continued to exempt inprovements until 1932, the district of North Vancouver until 1931, and the City of North Vancouver until 1930.

Following these disastrous experiences, there was a widespread and continuous retreat from site taxation in western Canada and a formidable list of royal commissions, economists, provincial and municipal officials declared themselves against any degree of site taxation whatever.[8]

I am prepared to accept, on the other hand, that the experiences in the west would have been somewhat less catastrophic if site taxation had been administered more soundly—particularly with regard to principles of land assessment. I would also concede that violent fluctuations in the general price of land are much less likely to occur today than several decades ago. When account is taken of the fact that site taxation has proven administratively practicable in countries such as Australia, New Zealand, and Denmark, one is forced to examine closely the question of whether site taxation, whatever its merits, would actually work in Canada today. I do not believe that we can answer this question conclusively because it is not possible to make meaningful comparisons between Canada and the countries where site taxation is in effect. The difficulty is that the real property tax carries a much heavier load in Canada than in these other countries, either because municipal responsibilities are much greater in Canada or because, in these other countries, municipalities have access to major tax fields other than the real property tax. Thus it is commonly said of Australia that the role of municipal government there is narrower than in any other English speaking country.[9] Both education and law enforcement are the direct responsibilities of the state governments and the latter have assumed a major role in connection with hospitals, local transportation and water supply. It is not surprising therefore to find for 1957-58, the latest year available, that the total expenditures of all Australian municipalities were only 118.3 million Australian pounds[10] which is equivalent to about $260 million, which scarcely compares with net general expenditures by Canadian municipalities of $1.5 billion in 1957 and $1.6 billion in 1958.[11] Even allowing for population differences, the Canadian level of expenditures is several times higher on a per capita basis and this is reflected in the property tax levies for the two countries—72.9 million Australian pounds in Australia for 1957-58,[10] equal to $160 million, as compared with $916 million in Canada in 1957[12] and $997 million in 1958.[12] The level of local government expenditures is also low in New Zealand

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[5] Amounts taken from Robert M. Clark, University of British Columbia, *Municipal Administration Course*, Lesson Finance III-4, Property Tax Exemptions, table I.

[6] *Ibid*, p. 14.

[7] H. Carl Goldenberg, *Provincial-Municipal Relations in British Columbia*, King's Printer, 1947, p. 68.

[8] An excellent chronological summary of twelve major reports, principally of Royal Commissions, from 1917 on, is contained in the publication by Robert M. Clark, *op. cit.* pp. 17-23.

[9] Ratchford, B.U., *Public Expenditures in Australia*, Duke University's Commonwealth-Studies Center, Durham, N.C., 1959, pp. 255-6.

[10] Commonwealth of Australia, *1960 Year Book*, p. 710.

[11] Dominion Bureau of Statistics, *Comparative Statistics of Public Finance*, prepared for Dominion-Provincial Conference, July 25-27, 1960, table 2.

[12] Dominion Bureau of Statistics, *op. cit.*, table 1.

largely because education and law enforcement are national services in that country. Turning to Denmark, we find that site taxation plays an even smaller role. For 1957-58, again the latest year available, out of total current revenues for all municipalities of 2.836 billion kroner, no less than 1.839 billion kroner came from income taxes, and only 0.581 billion kroner came from property taxes, of which slightly over 60% consisted of taxes on land.[13]

The truth of the matter seems to be that the use of site taxation inevitably forces municipalities to turn to other sources of revenue than the real property tax. This has even happened in western Canada where a number of cities have for many years derived large revenues from utility profits.

To conclude this discussion of tax stability, the changeover to site taxation flies directly counter to what tax experts have been counseling with increasing vigour in recent years, in that it sharply narrows the tax base and places intense pressure on a very restricted area. Published statistics for Ontario cities indicate that the exemption of improvements would remove approximately 75% of the existing property tax base.[3] This means that tax rates under site taxation would approximately quadruple if revenue loss was to be avoided. I am sure that no one would suggest that the income tax or any other major Canadian tax could regularly continue to yield its present level of revenues if 75% of the base were to be removed. Yet this is the proposition which the advocates of site taxation put before us. I must emphasize that the narrow tax base which would result from the adoption of site taxation would lead to very high rates of taxation, highly imaginative efforts to avoid or reduce the tax and increased arrears. If economic difficulties set in for a particular community, as, for example, where a large factory closes down, it is easy to envisage the appearance of the alarming cycle of high tax rates leading to increased tax arrears, leading in turn to a narrower tax base, ever higher rates, greater arrears and finally a financial breakdown. I submit, therefore, that what is needed to improve the Canadian property tax is not a narrower tax base but rather a broader one in which most existing exemptions of real property would be removed and which would reach out to a few kinds of personal property such as automobiles.

Before concluding this paper, I shall mention briefly several other aspects of site taxation which disturb me. We have lived on this continent for generations with composite taxation and millions of people have paid money for properties in the expectation that the level of their tax liabilities will continue as in the past and millions of leases have been entered into on the same assumptions. To change this, except over a very long period of time, could produce great hardship in individual cases and, even where the change is effected over many years, the future tax changes would be anticipated and capitalized in any property transactions bringing immediate losses to property owners unfortunate enough to have low improvement-land ratios. On the other hand, owners of land with high improvement-land ratios would reap a new kind of unearned increment from a tax which is supposed to reduce unearned increments.

Site taxation presents one other difficulty which should not pass unnoticed, namely, the very real technical problem for municipal assessors of achieving equity in land valuation in urban areas where there would---especially under site taxation—be virtually no vacant lots to provide evidence of market value. The only sound basis for arriving at land value would then be by means of capitalizing the residual income left after attributing an estimated income to the building, or, more correctly, to the building representing the highest and best use of the land. These residual techniques are very difficult to apply.

[13] *1959 Statistical Yearbook of Denmark*, tables 262 and 264.

Summary and Conclusions

My overwhelming conviction is that site taxation would fail to accomplish most of the things claimed for it, that other objectives which it would achieve either could be implemented more effectively by alternate policies or are not worth striving for. Our modern cities are the products of immensely powerful economic forces and the impact of site taxation on these forces would generally be very slight. If the result of site taxation were to reduce sharply the general level of land prices, I would have to modify several of my most important conclusions. However, I can see no basis, theoretical or empirical, that this is the case and I challenge the protagonists of site taxation to produce objective evidence showing that land values are lower in cities which have site taxation than in comparable cities where composite taxation prevails. I am, finally, apprehensive that some of the incidental results of site taxation would be very harmful such as the narrowing of the tax base, the increased taxes for some farmers and some industries, and the decentralization of urban commerce. My final conclusion, therefore, is that while our property tax system is greatly in need of strengthening, this purpose would not be achieved by the adoption of site taxation.

Speaker: **H. Bronson Cowan**
International Research Committee on Real Estate Taxation, Ottawa

Three Major Systems of Municipal Taxation — Their Effects — Their Defects

> . . . The time has come for a nation-wide recognition of the fact that the tenure and use of urban land are matters of urgent concern . . . and that orderly—and, in some cases quite speedy—tax reform is essential to the well-being of our American municipalities and to rational urban development.[1]

There are three widely used methods of raising municipal revenue by the taxation of real estate. They are the annual, or annual-rental; the capital and the site value systems. All three have been thoroughly tested, over long periods, by cities both large and small, situated in countries around the world, where they have been and still are being used.

Federal, state and municipal governments, as well as economists and research organizations of various kinds, have investigated them time and time again. Thus their respective merits and defects have become apparent. This makes sound comparisons possible.

In this address a brief description and history of each of these three systems will be given. Their effects on the municipal tax base will be considered. This will include particulars of how they affect such social problems as uncontrolled speculation in land values, booms and depressions, periodic mass unemployment, housing and slum conditions, urban sprawl, town planning, the "ability-to-pay" and the "benefits received" theories. Of necessity they can be treated only lightly but, we hope, clearly.

The Description and History of the Three Systems

The annual, or annual-rental, system is the oldest. It was adopted in Great Britain in 1601. Under it both land and improvements are taxed on the estimated assessed rental incomes of the properties. Many efforts have been made to have it

[1] *Urban Planning and Land Policies.* Supplementary Report of the Urbanism Committee to the National Resources Committee, p. 76. Washington, D.C. 1937.

abolished in order that the site value system might be adopted. All were defeated. Speaking in the House of Commons on November 26, 1937, in favour of site value rating, Mr. S. S. Silverman quoted Mr. Bernays, Parliamentary Secretary to the Minister of Health, as having said in an earlier debate:

> Time and again the electors have voted for this form of taxation and time and again they have been thwarted. On six occasions bills to tax land values have been passed in The House. Six hundred municipalities have voted in favor of it.

Here we find evidence of widespread dissatisfaction with the annual method and a desire to have it replaced by the site value system.

The Three Systems Put to the Test

In the early days of municipal government in Australia and New Zealand municipalities were required by law to use this system in both rural and urban areas. Dissatisfaction with it sprang up first in the farming sections. Because it taxes improvements taxes on land values are correspondingly reduced. This encourages speculation in land values. Incoming settlers complained that powerful financial interests had obtained the ownership of extensive tracts of productive farm land for which they were demanding high prices. This was forcing settlers to settle on less productive land.

In the hope that the capital system might give better results, the New Zealand government, in 1882, gave municipalities power to adopt it. A considerable number made the change. As the capital system also taxes both land and improvements it did not improve the situation. The dissatisfaction continued. In 1896 legislation was enacted that permitted municipalities so desiring to use the site value system. As all taxes under this system are imposed on land values the speculators soon began to unload their holdings as more and more municipalities adopted it. Urban municipalities were quick to follow their example.

New Zealand is the only country where the three systems have been tested side by side over a long period of years and where the taxpayers have been able to compare their effects freely and easily. Although the two older systems had obtained a long start this younger system soon began to replace them in both rural and urban areas. In 1958 there were 295 municipalities in New Zealand. Of these 17 (5.7%) were still using the annual system, 81 (27.5%) the capital system and 197 (66.8%) the site value method. In April, 1961 the percentage had increased to slightly over 70%. Thus the number using the site value method was more than double those using the annual and capital systems combined.

Developments in Australia have followed the same pattern. The swing there, however, has been confined to the annual system as the use of the capital system has never been authorized by any of the six state governments. In 1953 there were 971 municipalities in the Commonwealth. Of these 614, representing 92% of the total municipalized area, were using the site value method.

The Capital System.

This system is the one we are familiar with on this continent. It imposes taxes on the estimated assessed value of both land and improvements. The greater part of the tax load rests on the improvements. As the annual system also taxes both land and improvements their effects are similar. For the purposes of this study only the capital system will be considered. It is virtually the only system that has ever been used in the United States.

Two municipalities have adopted the site value system in part. They are the cities of Scranton and Pittsburgh, in Pennsylvania. In 1913 these cities commenced reducing municipal taxes on improvements by 10% every two years. They liked

it and kept on doing so until 1925. The reductions then amounted to 50%. This was as far as state legislation would permit them to go. A succession of mayors, both republican and democrat, have described the innovation in Pittsburgh a success. They include Governor David L. Lawrence who, previous to his recent election to the governorship, had been mayor of Pittsburgh for 12 years. In a public statement, made in September 1959, Governor Lawrence said:

> The graded tax law has been a good thing for Pittsburgh. It has discouraged the holding of vacant land for speculation and provided an incentive for building improvements. In the distribution of the tax burden it is particularly beneficial to home owners.

The other exception is in the irrigated districts of California. The site value system has been in full use there for a considerable number of years. It became necessary to find some way to curb speculation in land values. This was a principal cause for its adoption.

The Situation in Canada

The six eastern provinces in Canada have always used the capital system. The four western provinces have adopted the site valuation system in part. The rural areas in the three prairie provinces reduced the taxes on improvements a full 100% early in this century. Between 1903 and 1913 western Canada, under the capital system, experienced a boom of disastrous proportions. During that period land values in Regina increased from $10,490,720 in 1909 to $82,490,720 in 1914—increase $71,718,390, or 684%; in Edmonton from $5,314,405 to $191,283,979—increase $185,969,575, or 3500%; in Calgary from $2,289,655 to $120,801,588—increase $118,511,933, or 5180%.

During the boom both rural and urban municipalities, in a frantic but belated effort to check it, began to adopt the site value system. It was too late. All four provinces reeled under the shock of the depression. There was a disastrous crash in both land and improvement values. Its effects lasted until well into the thirties. During this period some municipalities increased their taxes on improvements in part. It has been claimed that these developments prove that the site value system was a failure. The facts are that in its early days it never had a chance to succeed. Most of the urban municipalities have continued to exempt improvements from taxation by percentages that range from small to as high as 70.

South Africa's Experience With the Capital and Site Value System

The Union of South Africa has never used the annual system. It started with the capital system. Like the annual system in Australia it developed strong opposition and for the same reasons. Taxing land values lightly encouraged speculation in land values, slowed down developments and was a cause of urban sprawl. As improvements of all kinds were still taxed a full 100% a large majority of home owners were paying higher taxes than they would have paid under the site value system.

The change over to the site value system started in 1916. The latest standing of the two systems is not available. By 1950 out of 287 municipalities 101, or 35% had adopted the site value method either in whole or in part. In the Transvaal all the municipalities had made the change and in Natal 26 out of 35, or 74% had done the same. In three of the four provinces 95 out of 163 municipalities, or 59%, were using the site value system. Throughout that period no municipality that had adopted the site value method had returned to the capital system. The capital system was still strong in Cape Province where 138 municipalities out of 144, were taxing improvements a full 100%.

Municipal Conditions on This Continent. Is the Tax Base Sound?

Municipalities all over the continent, as well as in Great Britain have long been seeking ways and means of increasing their revenue. Much the greater part of their income has been obtained from the taxation of real property, i.e., land and improvements. Even before the war evidence was accumulating that indicated that this class of property was either being heavily over-taxed, or that there was some basic defect, or defects, in it, as a base for local government taxation.

Addressing the American Municipal Association in October 1943 Charles E. Merriman, Professor Emeritus of the Department of Political Science of the University of Chicago said—

> The problem of taxation for cities is not only unsolved but is growing worse. It threatens our municipalities either with bankruptcy or mendicancy unless solved. The problem of urban rehabilitation is a long problem not to be solved in a day, but we have not reached what was once called "the end of the beginning".

In Canada the situation is much the same. In a brief submitted to the Sirois Commission in 1938 the Canadian Construction Association stated—

> There is a widespread and growing realization that real estate bears an unduly large share of taxation. The burden imposed by increasing municipal taxation on real estate is heavy and, in many municipalities, destructive of private ownership of real property. Such disproportionate taxes on real estate retards the building trades in Canada. It accounts for a substantial part of our unemployment and persons on relief. Lighter taxes on property, encouraging lower interest rates, would stimulate the flow of idle money into the construction industry.

In the light of this situation the question naturally arises: Is the tax base, as affected by the capital system of taxation, sound?

Influences Affecting the Tax Base

What constitutes a sound tax base? The dominating factor is prosperity. If the community is prospering the tax base tends to be sound. When a reduction in the production of wealth takes place the community suffers and the tax base shrinks.

This is an over-simplification of a complex subject. However, it justifies the conclusion that those factors, such as the adoption of site value taxation, which check speculation in land values, and make land more readily available on a sound basis, thereby encourage the erection of more and better buildings, increase the demand for labour and promote the welfare of the community. When to these factors is added the elimination of all taxes on improvements—the effects of these two forces working together tend to be more than doubled. They operate to improve and strengthen the tax base. If we can agree on this we will be off to a good start.

The Boom and Depression Started Numerous Investigations

First let us consider conditions that undermine the municipal tax base.

The world-wide boom of the twenties, followed by the disastrous depression of the thirties brought the peoples of the United States, Canada and Great Britain face to face with a series of ugly municipal, social and economic problems.

These problems, for the most part, had been largely ignored. They included many bankrupt and near-bankrupt municipalities, whose tax bases had suddenly and unexpectedly failed them; uncontrolled speculation in land values; vast housing shortages; periodic unemployment which during the height of the depression in the

United States involved twelve million people; and vast slum and blighted areas. Slums were no longer confined to large cities. They had taken root in smaller urban municipalities all over the continent.

Extensive investigations were launched in the United States, Canada and Great Britain in an effort to find their causes. Once ascertained it was hoped that methods for their elimination or control could be devised.

The following brief quotations from the reports of these investigations disclose the conditions they found. Their close relationship to the municipal tax base is readily seen. Note that these conditions developed under the capital system. Other important factors were involved but the capital system of taxation was the major cause. The quotation comes first. Its source follows.

Conditions Which Weaken the Tax Base

Speculation in Land Values. "The unparalleled growth of cities has been accompanied by uncontrolled subdivisions and speculative practices and by the most fantastic real estate booms which have meant dramatic profits to a few, but tragic personal losses to others, and burdensome delinquent properties to the community; and this on a scale affecting the economic situation of the entire nation." *Our Cities: Their Role in The National Economy.* National Resources Committee, Washington, D.C., 1937.

Tax Delinquency. "During the depression tax delinquency in American cities reached alarming heights . . . A good index of the seriousness of tax delinquency is the ratio of tax arrears to current levy; that is, the total amount of unpaid taxes from all previous years expressed as a percentage of the amount being levied in the current year. In 1938, the ratio of back taxes to current levy for 118 of these cities was 48.6 per cent, or almost one-half. In nine of these cities the ratio was over 100 percent; the back taxes, in other words, were more than the current levy. Only six cities had a ratio of less than 10 per cent, averaging 7.2 per cent." *Public Land Acquisition.* Part II. Urban Lands. February 1941. National Resources Planning Board.

Depressions and Their Effects. "The history of the recent industrial depression cannot be written without an account of the role of unsound financing and of speculation in real estate which at times became mere gambling. We are now faced with the problem of arriving at a rational urban land policy which, while affording private owners and developers adequate opportunity for wise and profitable land uses, will curb the forms of speculation that prove calamitous to the investing and tax-paying public." *Our Cities: Their Role in the National Economy.*

Housing Conditions. "Mr. President: The basic difficulty in dealing with the housing projects relates to the income of the people of the United States. . . . Very few people are willing to invest money in rental housing. It has not been very successful. The fact that they must obtain rents which half the people of the United States cannot pay means that they are unwilling to invest in new rental housing particularly at present high costs." *Senator Robert A. Taft. Congressional Record,* April 11, 1946.

Slum and Blighted Areas. "Anyone who has travelled across the Dominion during recent years can testify to the universal shabbiness and blight which characterizes the downtown and mid-central areas of our Canadian cities . . . Most Canadian cities and many of our smaller towns are suffering from a cancerous rot at their very core. Coupled with the erosive deterioration of our central business districts are the slum areas, which, generally speaking, adjoin them . . . The rehabilitation of our downtown business district, and the clearance of our slum areas, is the most challenging problem of our times." *Canadian Federation of Mayors and Municipalites.*" Extract from a brief submitted to a Special Committee of the House of Commons on Reconstruction and Re-establishment, to the Federal and Provincial Governments and to the Municipal Councils of Canada. June 1943.

Inflated Costs of Urban Land. "In most American cities there are large areas where land prices are grossly inflated. These prices not only stand in the way of public land acquisition, but more important, they discourage private acquisition, thus preventing orderly patterns of urban expansion . . . Where such price inflation exists the Land Committee feels that it should be reduced in the interest of cheaper land acquisition . . . and to stimulate freer trading in lands and to facilitate redevelopment and rehabilitation of such lands by private enterprise." *Public Land Acquisition.* Part 2, Urban Land. Report of the Land Committee to the National Planning Board. Washington, D.C., 1941.

Effects of Taxes on Improvements. "The present system imposes additional rates upon a man if he makes improvements. We hear complaints from both town and country that the present system penalises the industrious and puts a premium upon sloth and slovenliness . . . In some cases we hear of old properties which are not rebult for fear of rates." The Land Urban Report of the Land Enquiry Committee, England, 1914.

"Our present system . . . encourages the use in many cases of the less desirable land in a city, or of land outside the city limits, while much desirable land within the city is held vacant or poorly improved for speculative gain." *"Urban Planning and Land Policies."* Report of the Urbanism Committee to the National Resources Committee. Washington, D.C., 1937.

Major Underlying Causes of Existing Social and Economic Conditions

The conditions that have been described did not develop over-night. Warnings were given over a hundred years ago that they would begin with the disappearance of the last frontier. That was long ago. Now they are with us. They are due to powerful underlying forces often mentioned yet little understood or discussed. The tendency has been to ignore them. Thus we have drifted into the situation which we now face. Of these forces the most powerful is known as the land question. It has been aptly described as the pressure of a rapidly increasing population on a fixed and stationary supply of land.

The Gordon Commission estmiated that by 1980 Canada's population would be in the neighbourhood of 26,650,000, an increase of approximately 8 million or almost half of our present population. For the United States an increase in the neighbourhood of 60 to 70 million is expected, possibly considerably more. Where are these people to go? How will these increases affect the demand for land and speculation in land values? It does not lie within the scope of my address to develop this subject. Its importance, however, is apparent.

Here we find one of several major differences between the effects of taxes imposed on improvements and taxes resting on land values. Advocates of the capital system of taxation assume that there is no important difference between taxes imposed on land values and those levied on improvements. Investigations have shown that the differences are of profound importance.

Ratios of Improvement Values to Land Values

A second difference also is of grave significance. It was pointed out by Dr. Robert Haig, of Columbia University, during the investigation he conducted in New York City in 1914-1915; also in a similar investigation conducted at the same time in England by a commission appointed by the Chancellor of the Exchequer.

The capital system divides all properties, in every municipality using it, into two clearly defined groups. Each municipality has an average city-wide ratio of improvement values to land values. Let us assume that a small city has land values assessed at $10 million and improvement values assessed at $20 million. The percentage, or ratio, of improvement values to land values is 2 to 1. The ratio for that city is 2. This number, or figure, represents the dividing line for that city.

All properties in that city having ratios of 2, no matter what their value may be, would pay the same taxes under either the capital or site value system. Under the capital system all properties with ratios higher than 2, and they are those making the most efficient use of their sites, the kind every municipality wants, have their taxes increased in proportion to the height of their ratios. These ratios vary from small to very high.

Ratios may run as high as 20—and even higher. In other words, the value of their improvements may exceed the value of their sites 20 to 1. In such cases their taxes under the capital system are 20 times greater than those having the city-wide average ratio. Most homes have ratios of between 4 and 6. This tends to impose a heavy load of taxation on all the most desirable types of buildings in the city. These include the homes of a great majority of home owners. Here we find one of the reasons for the increasing interest in the subject of site value taxation under which no taxes are imposed on dwellings.

All properties having ratios below the city-wide average have their taxes reduced, under the capital system; they constitute all the least desirable types of property. The lower their ratios the more their taxes are reduced. The speculator in vacant land benefits most of all. When these contrasting effects are realized and kept in mind a number of the most widely used arguments against the site value system lose their effectiveness.

Municipalities using the capital or annual systems impose what might be called excess taxation on every type of desirable structure and hand over the excess to owners of all old and inferior properties in proportion to the lowness of their ratios. That is not all. Should the owners of these less desirable properties improve them, their taxes are increased in close proportion to the extent of their expenditures on them.

How the Site-Value System Works

Under the site value system every property owner in the city pays taxes on the same basis—the assessed value of the site. Taxes are not increased if owner improves the property nor are they reduced should he let it deteriorate. Here we find another reason for the increasing interest being taken in site value taxation.

Owners of properties having ratios above the city-wide average, naturally appreciate the reductions in their taxes which take place under site value taxation. The properties and interests which tend to benefit most are home-owners, manufacturers and the construction industry.

In most cities the percentage of home owners who benefit ranges between 60 to 75. The survey conducted in New York by Dr. Robert Murray Haig, in 1914-1915, indicated that 88% of the owners of single-family houses would have had their taxes reduced had New York adopted site value taxation at that time. The survey conducted in Wellington, New Zealand, in 1941, by the International Research Committee on Real Estate Taxation showed that 115 out of 120 average homes, or 96%, would have had their taxes increased under the annual system by £918, or by 84%. In slum and blighted areas the percentages drop down into the fifties and sixties. In contrast the percentages of government-owned, or erected houses in outlying suburban areas that benefit run as high, in many cases, as 100.

Home-owners tend to become enthusiastic over site value taxation, not only on account of the reductions in their taxes but because they can improve their homes in a wide variety of ways, such as laying hardwood floors, putting in picture windows, and laying cement walks, without having their taxes increased.

Investigations

The respective merits and defects of the three different systems of municipal taxation have been the subject of keen debate for many years in all English-speaking countries. During one short period, between 1914 and 1916, 6 investigations were conducted at the same time. Two were in England, 3 in the United States, and 1 in Canada. Their combined reports contain a great mass of information for students of this subject.

One in England, conducted by the Land Enquiry Committee, appointed by the Chancellor of the Exchequer, favoured the adoption of site value taxation. The second was carried out by the Departmental Committee on Local Taxation in England and Wales. Seven of its 13 members reported against the adoption of site value taxation. Its 6 other members favoured the proposed change.

In the United States the most important enquiry was directed by a committee of 23 members appointed by Mayor Mitchel of New York. This committee engaged the services of Dr. Robert Murray Haig, of Columbia University, who carried out an excellent survey. Five members of this committee favoured the site value system and 18 opposed it.

A survey conducted in Cleveland, Ohio, by a committee appointed by Mayor Newton D. Baker, on request of the City Council, reported, by a majority of one, in favour of site value taxation. In Pennsylvania the state government enacted legislation that gave the municipalities of Pittsburgh and Scranton power, as has been mentioned in this study, to adopt site value taxation for municipal purposes by degrees until 50% of the taxes on improvements had been removed and reimposed on land values. Both cities made the change. It has proved a success and thus has tended to refute arguments against the site value system used in connection with the other two enquiries.

The Canadian investigation was carried out by a Commission on Unemployment appointed by the Ontario Government. It advocated the adoption of site value taxation on the ground that "a reform of the present system of taxing land appears indispensable to lessen the evils from speculation in land which contributed to the recent industrial depression and which makes more difficult any satisfactory dealing with unemployment in industrial centres."

For many years the advocates of site value taxation found themselves on the defensive when giving evidence before commissions such as those that have been mentioned. They lacked the factual information they required to prove their case. Most of the investigations found against them. Before and during the war numerous investigations were launched in the United States, Canada and Great Britain to find, among other things, to what extent, and in what ways, different systems and municipal taxation affect land speculation, housing and slum conditions, land monopoly and other similar problems.

These more recent enquiries as well as others conducted in Australia and New Zealand by government commissions have tended to both criticize the effects of the capital system and to favour the site value method. Today it is the supporters of the capital system who appear to be on the defensive as they endeavour to prove their case.

The following typical quotations from the reports of these investigations indicate that these subjects are now being approached from a more practical angle than in the past.

"State and local authorities should consider the reduction of the rate of taxation on buildings and the corresponding increase of such rates on land, in order to lower the tax burden on home owners and the occupants of low-rent houses, and to stimulate the rehabilitation of slum and blighted areas." *Our Cities: Their Role in the National Economy.* National Resources Committee, Washington, D.C. 1937.

"We are not alone in believing that the rating of site-values is one of the necessary approaches to the re-adjustment of the present rating system. There are persons of all parties engaged in local government who have been forced to a like conclusion. They realize that unless something is done, and done quickly, the finances of local government may become top heavy. They take the view as we do, that one of the approaches is by the way of the rating (taxation) of land values . . . The defects of our system of rating cannot be remedied by a mere recourse to national funds. National funds, like local government funds, come from the public purse." From a speech made by Councillor Charles Latham, at a meeting of The London County Council, July 26, 1938.

In an effort to ascertain how the site value system of taxation actually works the Graded Tax Committee, in the City of New York, in 1939 sent a questionnaire to officials of municipalities in Australia, New Zealand and South Africa. The following are typical extracts from a few of the numerous replies they received. They all answered the same questions.

Sydney, Australia. "Land value taxation, with no tax on improvements, has been in effect in Sydney since 1916 (23 years). It has brought idle land into use, improved housing, old buildings have been replaced by new ones. It has encouraged more houses to the acre but no congestion. Notwithstanding municipal revenue is obtained entirely from land values land tends to increase in value; having increased during the past 22 years from (pounds have been changed into dollars) $155,000,000 to $235,000,000—51 per cent. This system has come to stay." Roy Hendy, Town (City) Clerk.

Brisbane, Australia. "There has been no tax on improvements for the past 38 years. It caused no business disturbance when suddenly enacted and has given general satisfaction. We have no slum areas. It has been advantageous to householders, industry and the public welfare." This reply was from the City Assessor's Department.

Witbank, Transvaal, South Africa. "This system has been in force for the past ten years with the exception of one year (1929) when improvements were taxed. The one year exception did no end of harm in that we lost a large industrial concern which was about to be established here. Business men welcomed site value taxation. It has given general satisfaction. There has been no agitation for taxing buildings. Better buildings were erected. It is a boon to industry as improvements and development are free from taxation. No difficulty is experienced in getting sufficient revenue." J. J. Turnbull, Town Clerk.

Wellington, New Zealand. "This system did not cause any business disturbance when suddenly enacted. There is no agitation for taxing improvements or personality. We have no slums such as there are in English and American cities. There is no difficulty in obtaining revenue from this system." E. P. Norman, Town (City) Clerk.

The Most Convincing Test

What is the final and most convincing test of the merits of any system of municipal taxation? The verdict here must rest with the people who pay the taxes. This test is most valuable where the taxpayers have the power to decide their preferences by popular vote. They do not vote on the basis of theories. They check the theories with the facts of their own experience and vote accordingly. As has been shown this verdict, in Australia, New Zealand and South Africa, has been overwhelmingly in favour of the site value system.

In New Zealand and Australia the soundness of this verdict has been examined during the last five years by three government commissions. All three decided unanimously in favour of the site value system. While we are still theorizing and guessing as to how these three systems work they feel that they know.

In New Zealand in 1956 a local government commission made a number of recommendations to the government. They included the following: "That there be one uniform rating system and that this system be based on land values". "The Commission is satisfied that the site value system is more ethical, expedient and equitable . . ."

The government did not act on this recommendation. Instead it appointed a Royal Commission on Local Government Finance. Numerous briefs were submitted to this commission. One was from the New Zealand Municipal Association. It saw some advantages in the annual system. It recommended that the use of the capital system should be abolished.

The commission did not comment on the foregoing recommendations. Instead it made the following proposals:

> There would be considerable advantage in having only one rating system . . . In view of the predominant number of local bodies which have by poll adopted the unimproved (site) value system it would seem that this is the only system which could become a universal one.

In order that this might be brought about it suggested that municipalities which had adopted the site value system should not be able to revert to either of the two older systems without a 60% majority at the polls. The commission knew that the obtaining of such a majority would be well nigh impossible.

Here we see that a large majority of the taxpayers of New Zealand have expressed their approval, through their votes in polling booths, of the site value system. Also that their verdict has received the support of two government commissions possessing an intimate knowledge of the respective advantages of these three systems of municipal taxation.

Australia's Experience With Site Value Taxation

In the early days of Australia, as in New Zealand, the use of the annual system by municipalities was made mandatory. Settlers in rural areas were the first to criticize it. Powerful financial interests held a monopoly of much of the most productive land. The campaign that resulted has been described as "the fight to unlock the lands."

In 1953 there were 971 municipalities in the Commonwealth. Of these 614, or 63.2%, were using the site value system and 357, or 36.8%, the annual method. These figures, however, are misleading. Those using the site value system are the largest. They comprise 92% of the total municipalized area of the continent.

Findings of a New South Wales Government Commission

Greater Sydney, present population 2,212,100, adopted the site value system in the early part of this century. In October 1959 the New South Wales Government appointed a "Committee of Inquiry" to "Report on certain matters arising under the Valuation of Land Act 1916-1951." The terms of reference required the committee to ascertain if the provisions of that Act specifying how land values were to be determined were satisfactory. If not it was to suggest "what amendments should be made to these provisions." It was also to find if the system of site value

taxation was causing "hardship or results in anomalies". The Committee of five included Mr. R. O. Rost, Valuer General of the state government's valuation department.

The public was invited to submit briefs and to make submissions at open sessions. Over 400 briefs and open submissions were made. After 50 years experience with site value taxation it was necessary to suggest only a few changes in the legislation.

Capital System. Two submissions favoured the capital (improved) system. The committee's conclusion was: "In general the Committee disfavours improved capital value as a basis for the levy of the general rate on the ground that it would be an obvious discouragement to development."

Annual Value. A considerable number of submissions favoured the annual system. Concerning these the committee commented: "Many of the arguments in favour of assessed annual value rating were not, in the committee's opinion, well founded." One by one these arguments were discussed and rejected. They included such subjects as ability-to-pay, benefits received, garbage collection, apartment buildings vs. houses, commercial vs. residential land and a number of others often advanced in favour of both the capital and annual systems. In each case the committee gave its reasons for rejecting them.

Site Value System. Numerous submissions favoured the site value system. The Committee's finding was: "The Legislative Assembly in 1892 passed a resolution that in the opinion of this House, a system of raising revenue by means of direct taxation upon land values, irrespective of improvements, would greatly promote the welfare of the country. The levying of taxes on the unimproved value of land was regarded as a social and economic reform justified because of—

(a) the needs of revenue;

(b) the right of the community to acquire some part of the unearned increment of land; and

(c) the need to break up large estates.

. . . the fact that unimproved capital rating (the site value system) has been the basis of local government finance for the past fifty years, during which time remarkable progress has been made in the development of municipalities and shires and in the provision of essential services, must not be overlooked. It would require very good reasons to justify the abandonment of such a system in favour of a system which in past years was deliberately discarded by the Legislature. In the committee's opinion no such reasons have been established."

Arguments Against the Site Value System

One of the purposes of the International Research Committee on Real Estate Taxation has been to list all the most important arguments used against the adoption of site value taxation, and to check these arguments with the experience of municipalities which have used the site value system for many years. The list of arguments is a long one. Only a few of the more important can be mentioned.

In a study of this kind it is necessary to keep the major issues involved constantly in sight. Arguments which have every indication of being sound, even unanswerable, when applied to special classes of property, or to purely local areas, tend to lose their effectiveness when the over-all interests involved are considered.

What are these dominating factors? Most of them have been enumerated in this study but will bear a brief repetition. They are:

(a) The land question. (b) The comparative values of land and improvements as bases for local government taxation. (They are so completely different from each other that they should never be confused.) (c) Taxes on improvements

have a long list of undesirable effects that are the direct opposite of the effects of taxes imposed on land values. (d) Taxes imposed on land values cannot be passed on to tenants, in the form of higher rents, or to the public in higher costs for goods and services.

Finally, (e). As previously mentioned the capital system of taxation divides all the properties in cities using it into two groups. Those that are making the most desirable use of their sites are in one group. They have their taxes increased in proportion to the height of their ratios. The increases tend to become very high and to involve large sums of money. All properties that tend to be a detriment to the city are in the second group. They have their taxes reduced by exactly the same amount as taxes are increased on the better types of property. The lower their ratios the more they benefit. With the foregoing factors in mind let us now note how they affect a few arguments widely used against site value taxation.

Skyscrapers Versus Small Adjacent Business Properties

Possibly no argument against site value taxation is so extensively used as the ability-to-pay theory as applied to skyscrapers and small, business properties adjacent to them. Under the site value system taxes on the skyscrapers are reduced. They are increased on their smaller and older neighbours that have low ratios. This is advanced as proof that the site value system stands condemned on the basis of the ability-to-pay theory.

Such comparisons are made on much too restricted a scale to justify their use where thousands, even hundreds of thousands, of other properties, are concerned, as in the case of large, metropolitan areas. As skyscrapers tend to have high ratios they fall within the class of the better types of property throughout the whole city. These include the great majority of small home owners. Therefore, should a municipality decide to retain the capital system of taxation or to adopt it in order to be sure that high-rise buildings, with high ratios, pay high taxes, it will, at the same time, force all other properties with high ratios to also pay higher taxes than they would under site value taxation. This could affect three-quarters of all the properties within the city.

Take the city of New York as an example. It has the highest office buildings, as well as the greatest number of them, of any city on the continent. In 1959 the International Research Committee on Real Estate Taxation made an outline survey of that city. The purpose was to find what the broad general effects would be should New York adopt the site value system. Also to find how the results compared with similar investigations in overseas countries. This study showed that there were 1,751 office buildings in the city. Only a small percentage of these could be called skyscrapers. The ability-to-pay theory cannot be determined by such a small sample of the whole.

In contrast there were 297,765 single-family and 198,551 two-family dwellings. The great majority of these would benefit under site value taxation. Their average ratio was 2.36, or well above the city-wide average ratio of 1.66. Thus the great majority of them, as in the case of the skyscrapers, would benefit under site value taxation. As both are in the class of properties having ratios above the city-wide average whatever affects one also affects the other. This, it will be noted, is one of the major factors that have been mentioned.

Skyscrapers vs. Concentrations of Land Values

The land question also is involved. The more taxes are increased on skyscrapers, and other classes of property with ratios above the city-wide average, the more they are reduced on land values. Among the greatest beneficiaries are the

owners of the immense concentrations of land values in the central business areas —especially those where the number of skyscrapers tends to be the greatest. People see the high-rise buildings and talk much about them. But they do not see the immense concentrations of land values that develop in these areas. Here, also, New York city provides the best examples.

There are 141 assessment districts in the city. Total land values in 1957 were $7,032,515,983. The Borough of Manhattan had only 8 of these districts. They had $3,712,109,064, of the total, or slightly over half of all the land values in the city. In 4 of these 8 districts, numbers 1, 3, 4, and 5, the land values were $3,078,077,491. This was 83% of the total in Manhattan.

The land values in these 4 assessment districts exceeded the combined land values in the 115 assessment districts in the 3 boroughs of Brooklyn, Queens and Richmond, by $457,365,274, or by 17.5%.

The value of the improvements in the 3 boroughs was $6,102,180,340. This was $2,861,618,945 more than the value of the improvements in the 4 assessment districts of Manhattan.

Here we get a glimpse of the importance of the land question. Also why it must not be overlooked—because the more taxes are increased on skyscrapers, and all other properties with ratios above the city-wide average, the more they are reduced on these great concentrations of land values.

Another Aspect of the Ability-to-pay Theory

Who pays the taxes on skyscrapers and other high-rise buildings? Advocates of the capital system of municipal taxation claim that it complies with the ability-to-pay theory. They support this view by showing that skyscrapers and other modern high-rise buildings have much greater incomes than smaller and older buildings with low ratios in their neighbourhood. Because, under the site value system, taxes on the larger and better buildings have their taxes reduced, while they are increased on the older and smaller buildings, it is claimed that taxes so imposed violate the ability-to-pay theory of taxation.

This overlooks another angle of the land question. This is that taxes on improvements—illustrated in the case of large office and other business properties —tend to be passed on to tenants, in the form of higher rents, and to the public in increased charges for goods and services. Thus the public pays most of the taxes so imposed. There are exceptions, as in the case of owner-occupied dwellings and unoccupied improved properties.

In contrast, taxes on land values cannot be so evaded. They depreciate the value of land so taxed. Under the site value system the owners of both types of property pay taxes on exactly the same basis: the assessed values of their sites. The public benefits on a scale that tends to be important, especially in the case of the larger municipalities. While the larger buildings will continue to earn a greater net income this is due to their heavier investments in improvements.

A Broader Tax Base

One of the claims favouring the capital system is that it provides a "broader tax base." The taxation of both land and improvement values, it is contended, make it easier for municipalities to obtain the revenue they require than is possible where tax levies are confined to the "narrow tax base" of land values only. Also that there will be less tax arrears. This latter claim does not find support in Australia or New Zealand.

Take the following percentages of total taxes collected for a recent year by some of the larger cities in New Zealand using the site value system. Wellington 99.84; Christchurch 98.43; Dunedin 98.63; Masterton 98.25; Hamilton 98.22; North Plymouth 99.35; Palmerston North 99.10; Hastings 99.36; Timaru City 98.79; Mount Eden 99.51.

There are no large cities using the capital system. The following are the percentages of some of the larger centres using the annual system: Auckland 98.46; Newmarket 99.11; Lower Hutt City 98.23.

The foregoing comparisons serve to indicate that municipalities using the site value system are as successful in raising their tax revenue as those using the capital system. These comparisons would be more valuable were the municipalities much larger. It is there that comparisons between the effects of the two systems stand out more clearly.

Claims Made for the Capital System

Advocates of the capital system favour it on the ground that it provides both a broader and sounder tax base. In doing so they overlook several of the dominating factors that have been mentioned. They assume that there is little or no difference between the effects of taxes imposed on both improvements and land values and those resting solely on site values. Actually, as has been pointed out, they are the direct opposite of each other. Taxes imposed on improvements operate to undermine and weaken the tax base. Under the site value system there are no taxes on improvements.

As the percentage of the total tax revenue imposed on improvements increases, the percentage resting on land values is diminished. This promotes speculation in land values with its long list of undesirable effects. The taxes on improvements depreciate their value, hinder their erection, handicap housing developments and react unfavourably on the construction industry and the employment of labour. As the tax-load increases these effects become more apparent. They are described in the official statements quoted in the early part of this address.

In most cities using the capital system, especially in residential areas, considerably the greater part of the tax load rests on the improvements. Large sums of money are involved. In small cities it tends to run into several million dollars a year. In large metropolitan areas the taxes on improvements are vastly higher. In the city of New York, during the tax year 1957-58, they were in excess of $450 million. Where such sums are involved it is natural to expect that slum and blighted areas will continue to develop in spite of the vast expenditures of state and federal governments designed to eliminate them. Such taxes operate to undermine and weaken the tax base.

The Benefits-Received and Ability-to-Pay Theories

In 1922 the City of Durban, South Africa, was using the capital system of taxation. It was experiencing financial difficulties. The advisability of adopting site value taxation, either in whole or in part, as a means of improving the situation, was under consideration. The council appointed a committee of the council to examine the situation. Assisted by the heads of its various civic departments the committee, in 1923, brought in a 44-page report of unusual value due to its practical, matter-of-fact approach to the subject. It recommended the gradual adoption of the site value system starting with a reduction of one-third of the tax rate on improvements. The council accepted this recommendation and acted on it.

Several pages of the report dealt with the "benefits-received" and "ability-to-pay" theories. Its findings challenged the soundness of both. The following quotations are from this part of the report. Only a few, typical of others, will suffice.

> An old objection used to be that the value of the site could not be separated from that of the building. It is seldom being raised now, for the thing is done daily.
>
> Various witnesses regarded building values as accurately reflecting: 1. Ability to pay. 2. Cost to the town of services required. 3. Value of the benefits derived from the community. It requires but little reflection to discern the fallacy of these assumptions. Neither the cost price, replacement cost, nor the market or rateable value of buildings afford any indication of the financial position of the owner . . . With few exceptions buildings are erected with borrowed capital . . . It is also common knowledge that many quite disreputable buildings are the property of wealthy persons.
>
> Comparisons were made between large and small buildings on sites of equal value. It was urged that the former involved the greater cost to the town. On the other hand larger buildings afford accommodation and facilities for a larger volume of business activities and residential needs, which, if they were scattered in small buildings, would increase the mileage of streets, water and sewerage mains, etc., and therefore the cost to the municipality . . . The reticulation of sewerage and water mains would have to be extended over the greater area, street lighting, refuse collection, police protection, and every other service would have to be spread out in proportion.
>
> Site values are the only possible index of measure of capital benefit, and the most reliable index or measure of the relative values of benefits received from public improvements and services.

One after another similar arguments were examined and rejected for reasons that were given. In every case the site value system was approved.

Reverse Effects of Different Systems of Taxation

From time to time authorities on municipal taxation have published short lists showing the reverse effects of taxes imposed on improvements as compared with taxes on land values. Some university text books contain such comparisons. Their comparisons tend to be short. Actually the list is a long one. Considering their importance these comparisons have received little attention. The following have a direct bearing on the subject we are considering.

Land Values as a Tax Base	*Improvement Values as Part of a Tax Base*
Provided by the Creator.	Created by human labour out of materials obtained from land.
Has no cost of production.	Cost varies in individual cases from small to millions of dollars.
Area cannot be increased to meet the pressures of increasing population.	Supply can be increased indefinitely both in number and size.
Is not perishable.	Is perishable.
Does not depreciate with age.	Depreciates with age.
With the disappearance of the frontier its ownership tends to become a monopoly.	As the supply can be increased according to demand their ownership cannot become a monopoly.
Increases in value in step with increases in population, the production of wealth and the provision of public services.	Start to depreciate in value soon after erection. Never increase in value beyond their cost of reproduction.

Land Values as a Tax Base	*Improvement Values as Part of a Tax Base*
Are fluid. Tend to concentrate in immense pools of value wherever population densities and the production of wealth is the greatest.	Are not fluid. Their combined total value increases in value only as old buildings are maintained in good repair and as new buildings are erected to meet an existing demand.
Fortunes are made out of increases in land values.	Values depreciate with age and use.
Tend to absorb ever increasing sums of community-created land values.	Lack this power.

Contrasting Effects of Taxes on Improvements vs. Land Values

Only one tax, on land values, is imposed.	Two taxes are imposed. One on land values and one on improvements.
No tax is imposed on improvements.	Improvements tend to bear the greater part of the tax load.
All property owners pay taxes on the same basis: the assessed value of their sites. Their taxes are not increased if they improve their properties nor reduced if they neglect to do so.	Owners' taxes are increased in proportion as they improve their properties. In rare cases the increases may be 20 to 40 times greater than if they neglected to improve them.
On the adoption of site value taxation taxes on land values are increased by the same amount as they are reduced on improvements. When all taxes on improvements are eliminated the increased taxes on land values vary from 100% to, in rare cases, 400%. Average increase is around 250%.	Taxes on land values are reduced by the same amount as they are increased on improvements. The reductions tend to be large. Even in small cities the sums of money involved tend to run into millions of dollars.
The greatest increases in taxes are on owners of vacant land. The increases seldom amount to over 3 to 400%.	Speculators in vacant land have their taxes reduced by higher percentages than any other class of property owners.
Speculators have their anticipated profits reduced and their risks increased. Weak holders are the first to unload.	Taxes are so low speculators have their risks reduced and their profits increased. Many can afford to hold urgently-needed blocks of land out of use for long periods.
As no taxes are imposed on dwellings and other improvements their value is not depreciated by the capitalized amount of such taxes.	Taxes on dwellings and other improvements depreciate their value by the capitalized amount of the taxes so imposed.
By reducing the speculative value in home and other sites, and eliminating taxes on improvements, investment funds are drawn into the housing and other fields. The erection of more and better houses and other improvements is made possible and is assisted.	By imposing taxes on houses and other improvements, while reducing them on site values, speculation in land values is encouraged and investment funds are driven out of the housing and other fields of construction. The erection of more and better houses and other improvements is impeded.

Contrasting Effects of Taxes on Improvements vs. Land Values

By increasing taxes on land values by from 100 to 300% speculation in land values is severely curbed. This checks booms in land values, with their attendant disastrous effects, and shortens their duration. The elimination of taxes on improvements speeds their recovery.	The low taxes on land values and heavy taxes on improvements paves the way for booms in land values and reverses the effects of site value taxation. Depressions occur more frequently and are of greater duration.
Ever since the days of Adam Smith economists have been virtually agreed that taxes on land values cannot be passed on to tenants, in the form of higher rents, or to the public, by means of higher charges for goods and services. It is a form of direct taxation.	Taxes on improvements generally are shifted to tenants, in the form of higher rents, and to the public by increased costs for goods and services. It is a form of indirect taxation and operates to increase the cost of living.
By making land required for development purposes more readily available, and on more favourable terms, the construction industries benefit. The elimination of taxes on improvements acts as would a giant annual bonus to the construction industry. It tends to amount to millions of dollars a year. The employment of labour is increased. Municipalities tend to become less dependent on governments for financial assistance.	By encouraging land speculation, and by the imposition of heavy taxes on improvements, the construction industries are hampered, their risks are increased and their profits are reduced. The unemployment problem becomes more serious.
Many municipalities finance their operations in the main out of increment values. This is shown by the fact that in spite of the heavier taxes imposed on them land values continue to increase, often by large amounts. This also makes municipalities more independent of senior governments for financial aid.	Taxes on land values are so reduced municipalities are unable to profit from increment values to the extent that otherwise would be possible. Thus they tend to become more and more dependent on higher levels of government for financial assistance that is becoming increasingly more difficult to obtain.
Strengthens the municipal tax base by discouraging every form of inferior land usage, such as have already been mentioned by the imposition of higher taxes on land values. Concurrently it promotes development in every desirable way, both for private and public purposes, by eliminating all taxes on improvements. Thus the municipality is enabled to develop naturally. The erection of more and better houses and other improvements is facilitated. Employment is increased. Business expands. The municipality benefits. Land values rise naturally and the tax base improves in step with the growth of the community. In fact increases	Injuriously affects and weakens the municipal tax base by imposing taxes on improvements and reducing them on land values. Thereby (a) it abets every undesirable type of land usage. These include speculation in land values, the withholding from use of land required for business, housing, construction, town planning, schools, hospitals, parks and other desirable purposes. Speculators do this while waiting for it to increase in value. Thus it benefits the few to the detriment of the many. (b) The tax base is diminished also by increasing heavily the taxes of every property owner desirous of utilizing his land to the most useful purpose within his

Contrasting Effects of Taxes on Improvements vs. Land Values

in land values often out-speed needs. When that takes place it means that the municipality is financing its requirements out of community-created land values.

means, and to the public advantage. Housing and other developments, such as those previously mentioned, are held up, the growth and progress of the community is impeded, slum and blighted areas develop and the tax base tends to become unable to supply the revenue the city requires for its expanding needs. Appeals are made for more and more state and federal government financial aid.

What Happens When a City Adopts Site Value Taxation?

This question was answered in large measure in England years ago by the members of The Land Enquiry Committee. This committee was appointed by the Chancellor of the Exchequer to investigate "the nature and workings of the existing systems of ownership, tenancy, and taxation and rating of land and buildings in urban districts and the surrounding neighbourhoods and their effect on industry and the conditions of life." This study, published in two volumes, was possibly the most comprehensive on this subject that has ever been published.

In answer to the foregoing question the committee reported in its second volume, *The Land Urban* in part as follows:

> We are led to the conclusion that if improvements were unrated, and if land were rated at its real value, a most efficient and desirable stimulus would be given to the productivity of the land . . . The effect of the two forces acting simultaneously would be more than twice as great as the effect of either of them separately . . . The owners of undeveloped land would be subject to a very large increase in their contributions, as compared with what they now pay. But the increase only seems great because of the smallness of their previous contribution . . .
>
> Every producer, whether he were farmer, builder or shopkeeper, would be stimulated to put up fresh improvements because he would know that while they might lead to an extension of his business, they could not lead to an increase in the amount of his rates.
>
> At the same time, the rating of land at its true value would bring it more rapidly unto the market, and check any tendency toward holding it up for the sake of a higher profit in the future.
>
> Land would be more easily accessible to farmers, business men and builders. This easier access, coupled with the increase of improvements, would tend to increase the volume of employment, and benefit agriculture and industries generally, not least of all the building trade, with the million or more men employed in it.
>
> Those who were on the margin of deciding whether or not to pull down small houses on valuable sites would be doubly stimulated, because the rating of site values would increase their present contribution to rates, while if they reconstructed they would, under a site rate, have to pay no more.
>
> Above all, it would tend to the building of working-class homes.

Changes Which Took Place When Dunedin Introduced Site Value Taxation

The City of Dunedin, in the South Island of New Zealand, affords a good example of a number of the more important changes which take place when a city, either large or small, adopts site value taxation. They all follow the same pattern.

As there are far more small municipalities than there are large, Dunedin's experience may have added interest on that account.

The new system was introduced late in 1953. Dunedin's population was 71,100. Land values were assessed at $78,559,944 and improvement values at $185,822,136. Its total taxes were $3,248,285. Under the annual system $964,740 of these taxes rested on land values and $2,283,545 on the improvements.

There were 8 wards in the city. During the campaign the New Zealand League for the Taxation of Land Values issued a statement showing that were site value taxation adopted the main business ward, which had slightly over half of all the land values in the city, would have its taxes increased by $287,520. One small ward, with a ratio a little below the city average, would have its taxes increased by $2,256, or by 1.4%. Total increase $289,776, or 24%. The other 6 wards, where the great majority of home owners lived, would have their taxes reduced by the same amount. Their reductions varied between 14 to 24%.

In a public statement the League said: "It can be stated with confidence that 80 to 90% of dwellings would have their taxes reduced. So would many manufacturing plants. Vacant land, slum dwellings, valuable sites with inferior buildings would have their rates increased. Conversely, well-developed properties would have a decrease in rates." The changeover did not become effective until August 1954. The $2,283,545 in taxes on improvements were removed and reimposed on land values. The taxes on land values were increased by 236%. The disastrous effects that had been predicted by some did not take place.

Dunedin's Rapid Development After the Change

The effects of the change to the site value system were soon apparent. They were felt in every part of the city. They attracted wide attention. The representative in Dunedin of the *Auckland Weekly News,* was requested to supply an article describing the changes which were taking place. A little later the *News* published a full page, well-illustrated article. Its main heading in large type read: "Surge of New Buildings Strikes Dunedin." It was followed by a second heading "Years of Change Lie Ahead of Otago's Capital." The following are brief extracts from that article.

> New building plans promise to change the sky line of Dunedin in the next few years. The centre of the city may alter more than most in the near future. New shop and office buildings in the Stock Exchange area are about to go up and some old landmarks are due to disappear. Many old buildings have had a "face lift" and others are to receive similar treatment. Factory buildings in the industrial section suggest that there is faith in the future of Dunedin . . .
>
> Recently there has been a surge of new buildings . . . For many years Dunedin was rated on the annual value of property, which gave no encouragement to new buildings in the centre of the city. As buildings on valuable sites in the centre of the city deteriorated, their rating charge declined, while new housing pushing out into the suburbs was heavily rated.

There were some who claimed that other factors also helped to bring about these changes. That could be so. The following figures, however, indicate that the adoption of site value taxation was the major cause. The average value of building permits for the six preceding years was $7,410,418. In the year 1954-1955 the value of building permits issued was $12,543,082. Increase $5,132,664, or 69%.

Pittsburgh's Experience With Site Value Taxation

An indication that the adoption of site value taxation on this continent would be attended by effects such as have taken place in overseas countries is provided by the experience of the City of Pittsburgh, Pennsylvania. As has been mentioned Pittsburgh gradually reduced its municipal taxes on improvements by 50% between 1913 and 1925. Taxes on land values were increased by a similar amount. Since then five mayors, republican and democrat alike, whose combined terms of office extended over 49 years, have declared that the innovation has been a success. All have made statements to that effect. The following extract from a statement by former Mayor John S. Heron, a member of the City Council from 1914 to 1932 and mayor in 1933, is typical of the others.

> The Graded Tax Plan has proved a real benefit to the home owners and to the business men of Pittsburgh, and has assisted materially in the development of the city. It is obvious that reducing the tax on buildings, and making a commensurate increase in the tax on land values, encourages building operations and tends to reduce speculation in land values.
>
> The principle appeals to me as sound. I believe the people of Pittsburgh recognize and appreciate the benefits of a taxation policy which means lower taxes for the great majority of taxpayers and at the same time furnishes more employment by stimulating the erection of new buildings. The fact that the erection of such buildings, as indicated by building permits, has averaged close to $40,000,000 annually during the past five years is very significant in this connection.

The success of this system in Pittsburgh, as well as in Scranton, Pa., led the Pennsylvania State Senate, in September 1959, to pass legislation, by a unanimous vote, giving 47 cities of the third class power to adopt site value taxation by a full 100%. The House of Representatives, the following month, adopted this legislation by a vote of 138 to 45. It was signed by Governor David L. Lawrence, himself a former mayor of Pittsburgh, in November.

Increasing Interest in the Subject

Since early in 1958, when the International Research Committee on Real Estate Taxation issued its first report, entitled "A Graphic Summary of Municipal Improvement and Finance, As Affected by the Untaxing of Improvements and the Taxation of Land Values", interest in the subject of site value taxation has been aroused all over the continent. In Canada, in 1960, on the suggestion of the Central Mortgage and Housing Corporation, Canada's housing authority, the Royal Architectural Institute of Canada appointed a strong committee to investigate housing developments across Canada.

The Committee held open sessions in the largest cities in all ten provinces. Hundreds of Canadian men and women gave evidence before it. They submitted some 400 briefs. In its report the Committee referred to the investigations of our committee, summed up briefly some of the more important advantages claimed for site value taxation, and concluded with the following statement—

> The Committee is certain that the Provinces, at no great expense, can ascertain for Canadian conditions the benefits or disadvantages of a general change from taxes levied on land and improvements, to a system of a real property tax on site value only. The difference in these assessment methods clearly has great import for the quality of the huge residential areas we shall have to create and maintain in the years before us.

Last June the Canadian Federation of Mayors and Municipalities passed a resolution unanimously calling for a Federation study of property taxation "as a means of financing municipal government" and as a factor influencing "the quality of urban renewal in the central areas and new development in suburban areas."

It is proposed to conduct studies in several Canadian cities designed to find how they would be affected by the adoption of site value taxation.

Developments in the United States

Similar developments have been taking place in the United States. In June 1960 Dr. Norman P. Mason, administrator of the Housing and Home Finance Agency, Washington, D.C., in a public address, made reference to our report. He mentioned the experiences of municipalities in Australia, New Zealand, South Africa and Canada with site value taxation over a period of fifty years. In his address Dr. Mason said:

> It is evident that there is close relationship between our prevailing real estate tax system and our problems of slum, blight, and community renewal. The time has certainly come to increase our knowledge by taking a fresh look at the matter. I am asking my staff to make an extensive investigation and shall make the results known when their studies are completed.

Bills have been introduced in the California and Michigan state legislatures which, should they be enacted, will give municipalities power to adopt site value taxation. These bills have been referred to special committees which are giving them the attention they have found their importance requires.

The action of the Canadian Tax Foundation in arranging this panel discussion is another indication, and a timely one, of the renewed interest in this important field of municipal taxation.

Speaker: **G. D. Hepditch**

Ontario County Assessor, Whitby

An Assessor Looks at Site Valuation

I was comforted and confirmed in my opposition to site valuation when I read Roy Wenzlick's bulletin, "The Future of Raw Land", where he stated, "land and building become a joint product, similar to a chemical compound in which the various elements no longer exist in their true state".

This statement of Wenzlick's, to my mind, is self-evident and needs little or no explanation. When a man purchases a parcel of property, he buys the land and any improvement thereon. Up to the turn of this century this was recognized in Ontario assessment practice, until the single-taxers "upset the apple cart" by having the Ontario legislature introduce the principle of having land and buildings separately assessed. I have stated before and will continue to state that most of our difficulties in assessment practice in Ontario stems from this ill-advised and ill-conceived enactment. In the appraisal field it is deemed unethical for an appraiser to make a valuation by adding the values of fractional parts. If it is unethical to make such an appraisal when estimating the market value of a piece of property then surely this practice of valuing land and buildings separately for taxation purposes is open to question.

What creates value? Some will say use in exchange. Assuming this, the power of acquiring commodities in exchange makes for value. Therefore, what value has a piece of land unimproved and lying waste? If it has any value, is the value not contingent by reason of the neighbouring properties. Any assumption of highest and best use, or future use must be predicated upon what is happening in the neighbourhood, the town or city, the region or province, and the nation.

Should this be true then site valuation goes by the board. How can the site have value, especially urban land, without improvements? The improvements are the reason the site has value. To separate the improvements from the site is to set up a house of cards. The exception, which proves a rule is of course the slum property. Here the value of the site may exceed the value of the improvements. If the assessor were to assess the market value or the actual value of the property as one unit then this would be properly taken care of. Mr. Cowan in his book, "A Graphic Summary of Municipal Improvement and Finance" supports this point, at least to my mind.

The trouble lies not in assessing by the capital value method, but, by ignoring the law which requires the assessment to be at actual value. My point is—the fault lies in undervaluation. Had the evaluators assessed at actual value in every situation illustrated by Mr. Cowan this would have been corrected. Local taxes like the Volstead Act are not popular, and due to the activity of the local politician, incorrect procedures and practices are followed and undervaluation is the order of the day.

If an assessor were to follow the statutory directions governing assessment, he would be hounded out of his position in the majority of jurisdictions by the same persons who are strenuously advocating an increase in land taxation. The hue and cry against land speculation is just another symptom of social unrest. This land speculation can be cured as suggested by Wenzlick and others in assessing land at its market value. The much bruited issue of "House and Home" of August 1960 supports this view.

In a study made for the Institute of Research of Lehigh University and published by the Economic Education League in 1958—"The Effect of Shift in Land Values"—the authors, Doctors Swartz and Wert, support unknowingly my contention that the trouble lies in not assessing at true value. This study, by the way, deals with the same subject matter as Miss Mary Rawson's much praised and reviewed booklet, and in my opinion is a far better and more worthwhile work. They give 50 samples together with an appraisal of each sample. Using this appraisal, they arrive at a tax based upon the same millage or mill rate used in the City of Bethlehem, their study area. In appendix B and its related tables, 11 to 14 inclusive, they endeavour to prove that land value would be more desirable than using the reported assessed value. However, their case is somewhat weakened when the taxes are computed using the true appraisal value.

Again, I believe I am supported by the evidence given in another site valuation study made by the Special Committee on Tax Policy organized by the Citizens' Housing and Planning Council of New York and published by them in 1960. Here the Committee can be "hoisted on their own petard" by comparing market values with the assessed valuation whether equalized or not and computing taxes on this basis rather than by using the land values as determined by the New York State Assessment Department. This type of circular argument of the site valuation fraternity is somewhat akin to the argument used by the fundamentalist sects.

In property taxation or in any form of taxation the ruling principle is "uniformity of application". This guiding principle should be kept to the forefront. In assessing properties under present standards "uniformity", I regret to say, is conspicuous by its absence. However, it would be further removed to the background if site valuation as suggested by its advocates came into being. Furthermore, it is my belief, the suggested introduction of site valuation would be a retrograde step and would only serve to accent the regressivity of property taxations especially in the taxing of lower value properties. Site valuation is against all

canons of scientific assessment practice; that is, if such a creature exists, and at times I have my doubts. Valuation, in my opinion, is an art not a science. This is not to say scientific principles cannot or should not be used but the results of the scientific investigation are subject to the empirical judgment of the assessor or the valuator, and the use of this judgment constitutes an art not a science.

The advocates of site valuation point proudly to Australia and New Zealand, and tell us of the glories of site valuation as found in these places. In most instances they neglect to tell us the full story. Site valuation is not universal; in many places in Australasia it exists side by side with the valuation of improvements. An examination of governmental publications will show that our cousins are having as much difficulty, if not more, in the local taxation field as we are having in Canada or North America.

It is said by some persons that property values are lowered by the use of site valuation. An examination of land values as reported by the Commonwealth Department of Trade and Commerce of Australia would not confirm this statement. For example, dairying land in New South Wales ranges from 90 Australian pounds to 150 Australian pounds per acre, excluding the value of buildings. This is as high, if not higher, than in Canada. In the fruit belt of Australia the values for land suitable for the raising of fruits to be dried, such as raisins or currants, run from £ A 200 to £ A 300 per acre, again without the buildings. Land suitable for maize growing in Queensland sells for £ A 60 to £ A 100 per acre. In Ontario, in the Niagara fruit belt land would sell for around the same price as similar lands in Australia if we accept the Australian pound at $2.40. It would seem that site valuation has offered no assistance in keeping land values down. The inflationary spiral affects Australasia as well as North America. Therefore, our friends' argument would seem to fall short.

Turning to the other side of the water the site valuators in Great Britain advocate strenuously land valuation techniques. The advocacy of this program is reported as a forward step and one that Canada and the United States might well follow. Again the full story is not told; in Great Britain vacant land is not assessed for local rates. One reason is because of the implication in the net annual premise. In Canada lands are assessed vacant or otherwise. Therefore, we would respectfully ask, what would be gained by adopting the methods advocated in Britain when we have what some of the British claim is a better system. Is it because "far-away-fields look green"?

We are also referred to Denmark, and what has taken place in the field of land taxation. Little is said of the large part agrarian socialism has played, especially in the field of land tenure policies. The end result is only introduced, ignoring the cause and effect. If our students of Danish taxation had read studies like F. W. Maitland's, "Domesday Book and Beyond", and related it to a work by a Dane, Frow Doktor Vining Kruse, "The Right of Property", they would have discovered "that nothing is new under the sun." A careful examination of Danish land taxation would have disclosed that the system of land taxation is traditional and goes back to the Jutland Law of 1241 A.D. and even has parallel in the Domesday taxation of William the Conqueror in England. The Danes kept up this type of taxation until fairly recently. Some change was wrought in the seventeenth century under King Christian the Fifth, but essentially the same method was followed as before until 1916. In fact even today a form of cadastral survey, which is termed matriculation in Denmark, is still followed. The system of "hard grain" lands as a base of rating is similar in content to the Hidal System as followed by the jurors in compiling the Domesday Book.

In Denmark, improvements are still taxed. The rate may be somewhat lower for improvements than for land, but not too much so. It is usually three-quarters of the land rate. The big difference is in the exemptions granted, especially when dealing with agricultural properties. Another difference is that the method of arriving at the value is by the economic rent which is determined by the syncretic methods as devised by the Germans, like Rothkegel and Aereboe.

To return to Canada: land valuation was tried in the western provinces and was found wanting. In Ontario, in the early twenties it was tried but dropped quickly. Our friends claim it was never given a chance to prove itself. I claim it was removed because it was the most fruitful source of tax inequality ever foisted upon an unsuspecting public. To introduce a system which might work in Denmark, where the population density is high and land is valuable, into the west where land is cheap and has practically no land value was erroneous. How then, it can be asked, could taxes be raised under land taxation in this type of country? Could roads be built, or schools erected or other improvements made? Since land values were practically non-existent, a tax on zero would be zero. What can be said of the west applies to other parts of Canada, especially where there are farm lands or small hamlets. The land taxers themselves claim the tax would be nil or almost so in small farming communities. Under this system a hard fact remains to be answered. How can the expenses of the municipality be met? I know of a municipality in Ontario, where site valuation was in operation until a few years ago, and which had a rate of 160 to 200 mills. This becomes silly. In my County of Ontario, if land taxation were in effect, for example in Scott Township, it would necessitate a rate of 183 mills to get the same amount of money from the land as is received from both land and buildings today.

Again looking at a large city, such as Toronto proper, a mill rate of 227.3 would be required under site valuation to raise the same amount of money as was needed in 1960. For the city of Ottawa the rate would be 257.57 mills.

I believe site valuation as proposed would necessitate further subventions and subsidies from the higher levels of government to make it workable. Should this not prove practical then the urban centres would, of necessity, be required to assist the rural municipalities. This would mean the taking over of property taxation by the province, because no municipality would like to hand over their revenue to another. In the province of Ontario, we are acquainted with the bickerings in the county government scene respecting equalization. How much further would this be magnified?

I submit, site valuation will not work; it is visionary and impractical. The dark ages may be forced upon us by reason of nuclear politics, but don't let us be drawn back to a form of taxation which was in force at the time of the crusades.

It will be argued that I am wrong. If site valuation is brought in, special advantages will accrue to all. In our cities, vacant lots used as parking lots will as if by magic, be occupied by large and imposing buildings. Of course the municipality will not receive any taxes, other than from the site.

How will we get the money to build all these large and imposing structures. There is only so much money available for the financing of construction. The amount of loanable capital in the money market at one time is definitely fixed. Any drain from one area to another might have serious effects upon our whole economy. In fact, it might be charged, there is too much building at present, but, this is not the time or place to discuss this intriguing question.

Again, our friend the land developer who believes in this magic of site valuation will have a further opportunity of cluttering up the landscape with his

cookie-cutter houses, provided he can get funds to build. Urban sprawl will be the order of the day, and the death knell of the city will soon ring out. Of course we can always engage in an urban renewal program. The sites left by the exploding city will be valuable and we should be able to tax them well.

Even as a method of tax reform it is a mistaken one. Our present method is bad, but why change it for a worse? Whatever the needed tax reform might be, I believe I am safe in saying it will not be land taxation, as proposed, for no people will accept such a scheme which is so unjust and which abandons the whole theory of proper taxation and permits a few to enrich themselves at the expense of the many.

To sum up, I believe—

First. We should reform our local fiscal policy by seeing that our assessors assess at actual value in accordance with the law and at 100% of the market.

Second. The agitation for reform for site valuation as prompted by the land developer is not to ensure better housing but more housing, and strange to say, he is supported in this by the planner, who, in the main has an insane desire for despotic control of the land.

There is no royal road to tax reform, especially in the local taxation field.